

Nonallied Nations

U.S. Plans Second Year
of Reduced Arms Sales

By Richard Burt

WASHINGTON, Nov. 26 (NYT) — The Carter administration plans to reduce arms sales to nonallied nations for the second year in a row, according to government officials. The White House said it would get other exporters of arms equipment to follow suit, a strategy designed to counter the administration means to reduce its policy of arms sales to nonallied nations.

President Carter is likely to put a ceiling of \$8.5 billion on such exports next year, a cut of 8 to 10 percent after inflation. The ceiling would not apply to allied governments in Western Europe or to Japan, Australia or New Zealand.

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A RIDE WITH GRANDPA — President Carter takes grandson Jason on Thanksgiving weekend spin through Cunningham Falls State Park, Md., near the Camp David retreat.

2 New Departments Proposed

Carter to Weigh Cabinet Reorganization

By Hedrick Smith

WASHINGTON, Nov. 26 (NYT) — By mid-December, President Carter is slated to receive preliminary proposals from his reorganization staff suggesting the creation of two new Cabinet departments and possibly the dismantling of the Commerce Department, administration officials said yesterday.

If the president goes along with the most ambitious of a series of reorganization options, administration officials said, it would mean setting up a Department of Economic Development, which would replace and expand the Department of Housing and Urban Development, and establishing a Department of Natural Resources, which would replace the Interior Department.

But high-ranking administration officials emphasize that not only are these plans still to be reviewed by Mr. Carter, but they also have yet to be reviewed and approved by James McIntyre, director of the Office of Management and Budget.

As they now stand, some of the proposals would have contradictory effects. One, for example, would eliminate the Commerce Department and another would expand it.

The secretary of commerce, Juanita Kreps, and her aides are vigorously fighting the effort to disband their agency. The White House has not yet indicated its position.

Moreover, senior aides to Mr. Carter are opposed to any significant reorganization, fearing that it would arouse strong opposition of congressional committees, overload Congress and strain White House relations with Capitol Hill.

"There's a bias that reorganization is too costly politically," a reorganization official remarked. "It's true, there's no political free lunch here. There's no option that does anything worthwhile that is not going to take some fancy footwork on Capitol Hill. But in my opinion it's do-able."

Recognizing both political and bureaucratic obstacles, the administration has set aside earlier ideas about consolidating various programs aimed at environmental control and protection of workers and consumers, and about combining the work of agencies dealing with various governmental health programs.

The president's one clear commitment is to renew an earlier proposal for a separate Department of

Education, which did not pass in the last Congress.

The other outstanding battlegrounds within the administration are the fields of economic development and natural resources.

Reorganization specialists insist, for example, that in the field of economic development, there are six major government agencies administering 12 programs with a multi-billion-dollar pool of money. The big ones are the Economic Development Administration within the Commerce Department, the Urban Development Assistance Grant Program of HUD, the Farmers Home Administration of the Agriculture Department, the Community Service Administration in the Department of Justice and the proposed urban-development bank that would be administered by three Cabinet departments.

The bureaucratic maze has brought repeated protests from mayors and other local government officials who contend that they cannot deal with the federal bureaucracy. It is too complex and uncoordinated, they say, and duplications lead to unnecessary delay in obtaining federal aid.

In Government Rating of 51 Facilities

10 U.S. A-Plants Get C on Safety

WASHINGTON, Nov. 26 (UPI) — Documents released yesterday by the Nuclear Regulatory Commission show that it conducted an informal safety rating of 51 nuclear power plants in the United States that placed 10 of the plants in a "below average" category.

The 10 plants received a C rating grade from the commission for their safety performance in 1975, the only year that the commission made such a rating on nuclear power plants. A spokesman said that commission conducted three ratings of the 51 plants to see if it could develop a system to improve plant performance and allocation of inspectors.

The documents containing ratings of the 51 plants in operation during 1975 were released by the commission as a result of a suit brought by the Union of Concerned Scientists under the Freedom of Information Act.

Two-Thirds Are 'Average'

Two-thirds of the 51 plants were termed "average" in their approach to safety and received grades of B. One sixth were called "above average" and won A's. The remaining 10 received C's.

The 10 plants with a C included plants run by Commonwealth Edison Co., one containing three nuclear reactors near Chicago, the other containing two reactors near Moline, Ill.; a reactor that makes up the Indian Point complex of Consolidated Edison Co. 30 miles from New York City, and the Surry nuclear plant operated outside of Newport News by Virginia Electric Power Co.

The Union of Concerned Scientists is a public interest group in Cambridge, Mass., opposed to nuclear power. Its spokesman, Robert Pollard, said, "It is deeply disturbing that several of the reactors the commission rates as the poorest are located near areas such as New York and Chicago where millions of citizens reside."

In rating safety performance of the 51 plants, the commission graded them against each other and not against a standard of its own. The commission said: "This practically assures a mix of A's, B's and C's."

Its system of grading did not take into account "violations" of commission safety regulations, the most serious charge against a nuclear power plant. It only included "infractions," "deficiencies" and "licensee event reports" where nuclear plants had experienced an operating event, such as a temporary shutdown, that had to be reported to the commission.

In the documents, the commission pointed out that if it included "violations" of commission regula-

tions, such as an accidental exposure of plant workers to radiation, 2 of the 51 plants with a B rating would have received C's.

The commission identified these two plants as the Zion, Ill., plant of Commonwealth Edison Co. near Chicago and the Millstone 1 plant of the Northeast Nuclear Energy Co. near New London, Conn.

Violations were not brought against the Indian Point plant of Consolidated Edison, which already had received a C for its safety performance.

In its statements accompanying the commission documents, the Union of Concerned Scientists criticized the commission, saying that it did not have enough safety inspectors and did not conduct enough inspections. It also criticized the commission for not levying stiffer fines against electric companies violating commission regulations.

The commission, asked for comment, said it now has 235 inspectors who will conduct an estimated 3,000 reactor safety inspections by the end of the year. The commission said that, since 1973, it has levied for safety infractions 28 civil penalties against companies operating nuclear power plants, for a total of \$434,750 in fines imposed.

—THOMAS OTOOLE

U.S. Moves to Reorganize
Its Public Jobs Programs

By Philip Shabecoff

WASHINGTON, Nov. 26 (NYT) — U.S. Labor Secretary Ray Marshall, believing that mismanagement, inefficiency and indifference are threatening the long-term credibility of the government's public jobs programs, is undertaking major revisions in the Labor Department's Employment and Training Administration, aides say.

The aides said that ineffective, slipshod and complacent federal management was contributing to fraud and abuse in the jobs programs around the country.

Mr. Marshall has already replaced a deputy director of the employment administration, which operates programs authorized by the Comprehensive Employment and Training Act (CETA) to provide work and training for the unemployed. New regional administrators were recently installed in New York, Boston and Atlanta.

A thorough reorganization of the employment administration has been planned. But it has been postponed until at least next spring while the agency prepares and carries out new CETA rules.

The aides said that the employment administration, under the leadership of Ernest Green, assistant secretary of labor for employment and training, did an excellent job over the last year and a half in achieving the primary goal of the public-service jobs programs: creating and filling 725,000 jobs.

Administrative Problems

But they added that administrative and personnel problems, most of them inherited from previous administrations, were a threat to the future financing of the jobs programs because they called the effective-

ness and efficiency of the programs into question.

"We have \$11 billion going out under the CETA programs but some of the managers simply do not understand the programs and have no sympathy for them," said Paul Jensen, executive assistant to Mr. Marshall.

Reorganizing in the department's job-and-training effort, Alfred Zuck, assistant secretary of labor for administration and management, said, "Unless we can demonstrate the credibility of the programs, we run the risk of losing the programs." In large part because of ineffective management in Washington, the credibility has not yet been established, he added.

Mr. Marshall said recently that he was determined to improve the efficiency of the jobs-program management to prepare for expected budget cuts affecting the programs.

From a peak of 725,000 jobs this year, the programs are scheduled to dip to 625,000 jobs by the end of 1979. According to government officials, President Carter's budget plans could produce a cut of at least \$1.5 billion from the jobs programs in the 1980 fiscal year.

Special Office

Earlier this year the Labor Department organized a special office of investigations to look into allegations of fraud and abuse. Recently the department announced the formation of a program of fraud-and-abuse prevention.

Now Mr. Marshall and his aides are seeking to deal with major problems involving the administration of the jobs programs within the Labor Department bureaucracy.

Flush Toilets
Provided for
Parisian Dogs

PARIS, Nov. 26 (Reuters) —

Flush toilets for dogs have appeared on the streets of Paris, where pedestrians often have to pick their way gingerly along pavements soiled by canine excrement.

The toilets were set up Friday by a "Keep Paris Clean" group. They consist of concrete bowls built into the pavement and surrounded by high posts.

Taps on the pillars allow dog owners to flush the bowls clean after use.

U.S. Navy Re-Examining
Its Goals, Allied Relations

By Drew Middleton

NEW YORK, Nov. 26 (NYT) — After a third of a century of global maritime supremacy, the U.S. Navy is re-examining its doctrine, missions and relations with allies in the light of its reduced power and the expansion of the Soviet Navy and Air Force.

This re-examination is not confined to the Navy. The Department of Defense, in planning for the next five years, is intimately involved. The other services competing for budget dollars have strong views on how much defense funds should go to the fleet and how the fleet should be used in war.

Powerful outside voices such as the Navy League, the Atlantic Council and members of Congress have joined the debate. In addition, many Navy alumni are prominent in industry, banking and the law and are now linked with the industrial complexes that sell the Navy its ships, weapons and aircraft.

The re-examination is not concerned solely with even primarily with the question of whether the Navy should build huge ocean-powered aircraft carriers or smaller oil-burning carriers.

The Atlantic Council, the governing body of the North Atlantic Treaty Organization, recommended recently that the United States and other NATO members avoid building their fleets around a small number of "expensive vessels subject to damage or loss" such as cruisers and supercarriers.

Soviet Expansion

The impetus for the Navy's re-examination is primarily the Soviet fleet's expansion. The intelligence community expects that the Russians will eventually deploy a navy of 775 ships after some of the submarines and light coastal craft built in the 1950s become obsolete. The United States, according to officials in Washington, is headed for a Navy of 325 ships. The other NATO nations maintain a total of about 600 warships.

The West's numerical edge is deceptive. NATO ministries admit, and Washington officials confirm, that although many of the allied navies are relatively new, there is an alarming shortage of new weapons, especially guided missiles and anti-submarine and anti-aircraft-detection devices.

In a recent article in Strategic Review, Rep. David Emery, R-Maine, identified what he termed the basic realities of this situation.

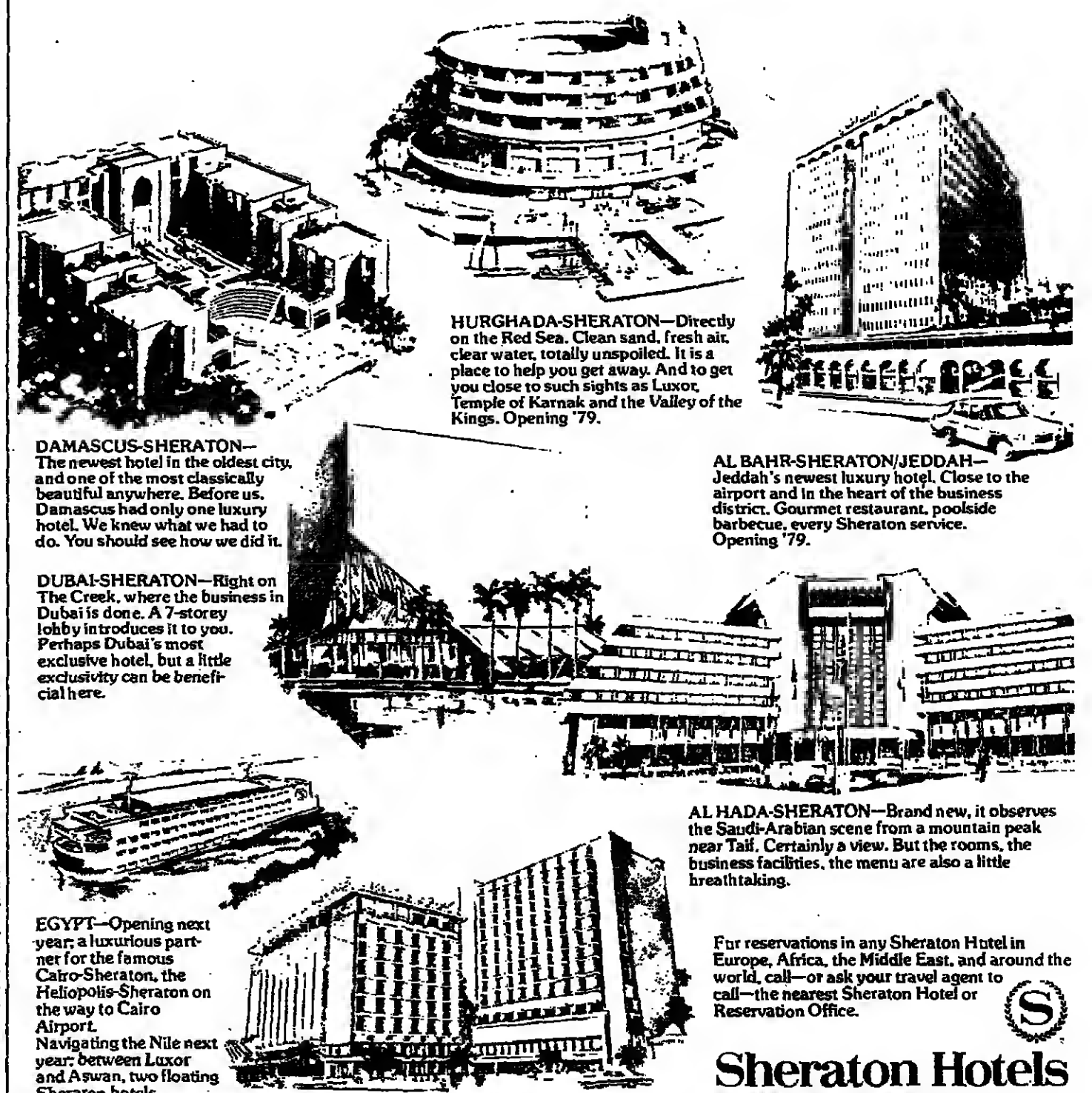
Soviet submarines, he wrote, can fire ballistic missiles at West European industrial centers without leaving their ports. About 250 Soviet attack submarines could, in the absence of a NATO counterstrategy, effectively seal off the northern and southern approaches to Central Europe in a war. Soviet land-

Soviet Envoy to Ethiopia

MOSCOW, Nov. 26 (UPI) — The Soviet Union has named a former ambassador to Laos, Boris Kirnosov, as the ambassador to Ethiopia, Tass reported today.

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In Border Raids

Suspected Rebels Clash
With Nicaraguan Forces

MANAGUA, Nov. 26 (UPI) — Suspected Sandinista guerrillas raiding across the Costa Rican and Honduran borders skirmished several times with the Nicaraguan National Guard, causing several casualties, the National Guard said today.

It was not known if the military activity was an indication that the much-advertised Sandinista guerrilla offensive had begun. The actions came as a reported guerrilla deadline for the campaign to begin passed.

The bloodiest clashes occurred before sunrise today near the Costa Rican border to the south, according to military sources.

National Guard spokesman Cnl. Aquiles Aranda Escobar told the government newspaper, Novedades, that on Friday morning invaders came across the northern Honduran border and attacked a guard outpost in the village of Achupala in Leon province, 200 miles north of Managua.

Novedades quoted Cnl. Aranda Escobar as saying that guard troops repelled the attackers who dragged several wounded with them. He said there were no guard casualties.

Refugees in Honduras

Novedades said guard sources confirmed that troop reinforcements were sent to the Honduran border in the villages of Somotillo and Rio Negro. In Honduras, there are an estimated 10,000 Nicaraguan refugees, and military sources here believe some are guerrillas.

It was the first reported raid from Honduras since September's civil war in Nicaragua.

In the south, military sources said that members of an international brigade of the Sandinista National Liberation Front raided two border villages and attacked National Guard posts on the banks of the Palo de Arcos and Los Salobres rivers, about 300 miles to the southeast.

The sources said the attackers withdrew into Costa Rica after the actions, the latest in several border incidents in the last few weeks. Nicaraguan intelligence sources believe the Sandinistas operate from Costa Rican training camps.

There were a number of casualties on both sides in the skirmishes.

Ex-Aide to Shah
Accepts Lie Test

LONDON, Nov. 26 (NYT) — Siamak Zand, a former press aide to the Shah of Iran, agreed yesterday to take a lie-detector test in response to a challenge from Arnold de Borchgrave of Newsweek magazine.

Last week, Mr. Zand accused Mr. de Borchgrave and three other reporters of having accepted either gifts or expense money in return for favorable reports on the Shah's regime. Mr. de Borchgrave denied the charge, offered to take a lie-detector test and issued a challenge to his accuser to agree to do the same.

Mr. Zand said in a telephone interview that he had "gone underground" in London because he feared for his life and left his hideout only in the company of two karate-trained bodyguards. But he said he was willing to take a polygraph examination at a time and place of Mr. de Borchgrave's choosing.

around an area known as El Castillo.

There was no official confirmation from the National Guard or from military commanders at the border region. But sources said the clashes did not indicate that the much-anticipated Sandinista offensive was under way.

But they came on the day a reported 36-hour guerrilla deadline for the start of the campaign expired.

Last week there were several major clashes on the southern border, including one involving Nicaraguan and Costa Rican troops. Two Costa Ricans were killed, and Costa Rican President Rodrigo Carazo Odio broke relations with Managua.

On the political front, both sides in the Nicaraguan dispute may still be willing to make concessions despite their rejection of the U.S.-backed peace formula designed to prevent the outbreak of civil war, diplomatic sources said. But analysts said international sponsored mediation appears to have collapsed.

The 10-month Nicaraguan crisis has pitted President Anastasio Somoza and his 10,000-man National Guard against an opposition force ranging from Sandinistas to businessmen, students, priests, lawyers and intellectuals.

Gen. Somoza's political foes want to oust him, but he says he will not step down until his term expires in 1981. The U.S.-sponsored plan called for a national plebiscite to decide whether Gen. Somoza should step down.

Teng Defends Hua Role
In '76 Riot, Urges Unity

(Continued from Page 1)

abroad. They were eager to express their opinions to foreign reporters and to find out more about Western democracy. "Suddenly we all feel like celebrities," a correspondent in Peking said.

Reporter Queried on Democracy

A Western reporter said that he was asked: "How does democracy work? Who decides who you can vote for? Is it true that in your country you can criticize leaders without being considered a traitor?"

"It seems to be an almost naive belief that the people want and will get more power," a diplomat said. Much of the protest has been in response to a recent official decision to clear hundreds of people arrested after the Tiananmen Square riot. The demonstrators had beaten up militia and turned over cars after wreaths honoring the late Premier Chou En-lai, like Mr. Teng, an advocate of worker bonuses and raised living standards, had been removed prematurely from Tiananmen.

Evenit to Norway, Sweden

ANKARA, Nov. 26 (AP) — Premier Bulent Ecevit will visit Norway and Sweden in mid-December, it was announced here today. Sources said that in Norway he will discuss economic cooperation, and in Sweden he will confer on bilateral matters that include the situation of migrant Turkish workers, estimated at nearly 10,000 there.



Former President Richard M. Nixon, in Paris to appear on a French television show, waves to newsmen after arriving at Roissy-Charles de Gaulle airport aboard the supersonic Concorde.

Ex-President Keeping Low Profile

Nixon, Haig Confer Quietly in Paris

PARIS, Nov. 26 (UPI) — Former President Richard Nixon met privately today with Gen. Alexander Haig, his former White House chief of staff.

Gen. Haig, who is supreme commander of Allied forces in Europe,

was enroute from a NATO meeting in Lisbon to his Brussels headquarters. He stopped in Paris for a 90-minute talk with Mr. Nixon at the ex-president's hotel.

Haig, wearing civilian clothes, slipped in a back door. Neither man said later what they had talked about. Gen. Haig is widely considered to have all but ruled the presidency during the final troubled months before Mr. Nixon resigned in August 1974.

Mr. Nixon is keeping a low profile after in Paris. He arrived here last night, ducked a crowd of about 100 persons who had gathered outside his hotel today in the Place Vendôme and had telephone calls referred to the message desk in the lobby.

Mr. Nixon is scheduled to appear Tuesday on the government-owned French television network to answer questions phoned in by viewers and put on tape.

While saying that he had no appointments with government officials, Mr. Nixon had said that he planned to see some "old friends." And sources said that he will be the guest of honor at a succession of lavish dinner parties that may be attended by members of the government in a personal capacity.

Mr. Nixon added that he had hoped to see the widow of the late President Charles de Gaulle. But Mrs. de Gaulle has been ill in recent weeks.

Vote Returns

Muldoon in
New Zealand

WELLINGTON, New Zealand, Nov. 26 (AP) — Prime Minister Robert Muldoon's National Party retained control of the government in general elections yesterday but with a sharply reduced parliamentary majority.

The count showed the moderate-conservative National with 49 seats, the opposition Labor Party headed by Bill Rowling with 42, and the Social Credit Party with one seat. Before the election, the National Party had 53 seats, Labor 31, Social Credit 1 and independents 7. After Parliament was dissolved last month for the campaign, five new seats were created for a total of 92.

7 Recounts Likely

Recounts were likely in seven districts where the winner was decided by fewer than 300 votes. Of these, four were won by National and three by Labor.

There was a swing of 4.5 percent of the popular vote in favor of Labor, more than public opinion polls had indicated. Mr. Muldoon's government replaced the Labor Party to power three years ago. The Social Credit Party more than doubled its vote of three years ago and edged Labor out of second place in a half-dozen districts. This trend, which had been predicted, was seen as a protest against the government.

Mr. Muldoon and Mr. Rowling kept their seats by comfortable majorities, but two cabinet members were defeated.

During the campaign, Mr. Rowling accused Mr. Muldoon's party of failing to stop or reverse the rise in New Zealand's foreign debt and of being responsible for the highest unemployment rates since the 1930s.

Son of Marcos
Appointed Aide

MANILA, Nov. 26 (Reuters) — President Ferdinand Marcos has named his 21-year-old son, Ferdinand Jr., as his special assistant.

The appointment is certain to bring criticism from the president's opponents, who have accused him of trying to establish a dynasty since his institution of martial law in 1972.

Upon his arrival Mr. Nixon said to reporters: "When I think my views would be useful I will speak out. But as far as a political comeback is concerned in the traditional sense, I have no such plans."

French television is not paying Mr. Nixon for his appearance but is providing travel and living expenses for him and his staff.

While there has been no public suggestion yet that Moscow wants its allies to contribute directly to the 43 divisions of Soviet troops already believed to be stationed along the Chinese-Soviet border, an increase in the Warsaw Pact's military presence in Europe would free Soviet troops for the Far East.

In his speech to workers' delegations in Bucharest last night, Mr.

Ceausescu Resists Soviet Union
On Increased Military Spending

By Michael Dobbs

BELGRADE, Nov. 26 (WP) — In a major gesture of defiance toward the Soviet Union, President Nicolae Ceausescu has put on record Romania's refusal of a proposed increase in defense spending by the Soviet-led Warsaw Pact military alliance.

During a long speech explaining Romania's stand at last week's Warsaw Pact summit meeting in Moscow, President Ceausescu also revealed that he had refused to sign several documents proposed by the Soviet Union. One of these documents is known to have been a condemnation of the current Middle East peace talks between Israel and Egypt, while a second — still secret — is believed by Western diplomats to have envisaged an increase in the Soviet bloc's defense budget to meet what the Kremlin regards as a new threat posed by China.

Over the last few months, there has been evidence of attempts by the Soviet Union to secure military support from its East European allies, including Romania, in its quarrel with China. In a speech last month, Mr. Ceausescu, 60, went out of his way to insist that the Warsaw Pact should remain purely defensive in nature and be limited to a European framework.

Soviet Motive

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In his speech to workers' delegations in Bucharest last night, Mr.

Ceausescu said that neither he nor his delegation had signed any document at the Moscow summit other than the vaguely worded joint declaration and communiqué issued at the end of the two-day meeting.

Then, in what foreign diplomats believe is an indication of the nature of the documents he refused to sign, he added: "We said in Moscow that it would be a big mistake if we were to pursue a policy of increasing military expenditures, policy of the intensification of rearmament."

France Convinced

4 U.S. Panthers

Of '72 Hijacking

PARIS, Nov. 26 (UPI) — Four members of the U.S. Black Panthers were sentenced Friday to five years in prison for hijacking a Delta Airlines jet in 1972 to Algiers and not releasing its crew until a \$1 million ransom was paid.

Court sources said that Melvin McNeil, 30, of Greensboro, N.C., and George Brown, 34, of Elizabeth, N.J., would be eligible for parole in 18 months, and that McNeil's wife, Jean, 32, and Joyce Tillerson, 27, of Spartanburg, S.C., would be eligible for parole in about six months.

The four defendants, who were arrested in France in 1976 after leaving Algeria, had faced maximum prison terms of 20 years. A fifth American, George Wright, who allegedly played a key role in the hijacking, is a fugitive.

France rejected a U.S. request for the defendants' extradition but did not grant them the status of political refugees. Their five-day trial here was conducted under international conventions banning hijacks.

The group hijacked a Delta DC-8 flight between Detroit and Miami. After allowing the 94 passengers to get off in Miami, the hijackers ordered the plane flown to Algiers, where they released the seven crew members for \$1 million.

Mr. Ceausescu, who drew Soviet criticism because of the here last summer of Hua Kuo-feng, the Chinese leader, has consistently differed with the Kremlin over relations with China. While Soviet leaders have been describing China's more active foreign policy as a threat to world peace, Ceausescu has actively been pushing the "China card" in a bid to strengthen Romania's own freedom of action on the international stage.

Two weeks ago Mr. Ceausescu flew to Yugoslavia for talks with Marshal Tito — the first Communist party leader to defy the Soviet Union. Their talks were interpreted as a demonstration of Yugoslav support for the stand Romania was preparing to take in Moscow.

Meanwhile, Yugoslav newspapers have been carrying reports from their usually well-informed Moscow correspondents describing tensions by the Soviet Union to exert control over its East European satellites — and to turn the Warsaw Pact into a much more unified monolithic organization. Soviet Yugoslav officials have warned of efforts to revise the results of the 1976 Berlin conference, which formally recognized equality and independence of Communist parties.

Another argument advanced by Mr. Ceausescu against any increase in Romania's 5923 million dollar budget is that this would have an adverse effect on the country's standard of living. Mr. Ceausescu, who has been in power for 15 years, has had to defuse mounting popular discontent with what is probably the lowest living standard in Eastern Europe.

UN Study Calls

Coal Vital Fuel

GENEVA, Nov. 26 (Reuters) — "Coal is the only raw material that can meet long-term energy needs and the demands of the chemical industry in Europe and North America," a UN study has reported.

But most coal-producing countries find it hard to maintain output because of the uncertain economic future and doubts about whether new coal-based processes will be profitable, the UN Economic Commission for Europe said.

"All estimates of future energy production and consumption indicate that neither increased production of natural gas nor the intensive development of nuclear energy will be able to satisfy world energy demand," the report said, calling for immediate steps to promote coal development.

China Posters Demand Democracy

By Fox Butterfield

HONG KONG, Nov. 26 (NYT) — The wall-poster campaign in Peking moved yesterday from criticism of Mao Tse-tung to demands for democracy, as one acerbic broadcaster compared China unfavorably with the United States. Another poster challenged the 1976 appointment of Hua Kuo-feng as premier.

"America is a capitalist country and is the most developed in the world," said the authors of the first poster, a group of eight young men from Kweichow province. "The United States is only 200 years old, but it has developed because it has no class or superstition."

The writers who signed themselves "The Democratic Forum," said the genius of the Chinese Communist Party had been stunted by superstition. China built two great walls, they said, "One wall was to keep out foreigners, the other was a spiritual wall built by Chin Shih-huang."

The reference was to the first emperor of China's centralized imperial system, in the third century B.C., who also built the Great Wall as a defense against nomads. Mao used to compare himself to the emperor, so that the comment seemed directed against Mao himself.

The new thinking, the great democratic and human rights to which we aspire, which we seek, have today raised their heads in the great land of China," the poster added.

Cheers for Westerner

Foreign diplomats and journalists reading the poster, posted up on a fence facing Mao's mausoleum, were surrounded by a curious crowd. A Western diplomat reported that when one of the journalists was identified as Philip Short of the British Broadcasting Corp., the on-lookers cheered.

"Report it the way it is," some Chinese shouted.

The diplomat said by telephone that several persons had asked whether people in his country could criticize their leaders without fear of reprisals.

In his view, the unusual friendliness of the crowd toward foreigners and the daring sentiments of the wall posters resulted in part from the announcement last week that a demonstration held in April 1976 in honor of Chou En-lai in Tiananmen Square was now being interpreted as a revolutionary event. The change in status of the incident, earlier labeled as reactionary, made heroes of the people who had taken part in it.

The change in interpretation remains controversial and was made only by the Peking party committee, not by the national Central Committee or its inner circle, the Politburo. The affair remains a point of controversy within the leadership, which is believed to be holding a major party gathering in Peking now.

Resolutions Questioned

In 1976, immediately after the Tiananmen incident, the Politburo, "on the proposal" of Mao, adopted two resolutions. One dismissed Teng Hsiao-ping, Chou's presumed successor-designate, from all his posts — Mr. Teng has since returned to power — and the other made Mr. Hua the premier and a deputy chairman of the party.

Another poster yesterday questioned these actions. "The two resolu-

Australian Crash Kills 5

PORT AUGUSTA, Australia, Nov. 26 (Reuters) — An Australian Air Force helicopter crashed during a military exercise near here yesterday, killing all five crewmen aboard.

One good Scotch...



White Horse
Fine Old Scotch Whisky.

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...deserves another



Logan De Luxe
Scotch Whisky.

Transvaal Election

Hardliner on Apartheid Wins Key S. African Vote

By John F. Burns

PRETORIA, South Africa, Nov. 26 (AP) — Prospects for an election toward wider rights for South African blacks dimmed yesterday with the election of a hardline white supremacist, Andries Treurnicht, as leader of the ruling National Party in populous Transvaal province.

As Transvaal leader, Mr. Treurnicht will head a party apparatus that controls nearly as many seats in the all-white Parliament as the other three provinces together. The position automatically makes him the most powerful political leader in the country after Prime Minister P. W. Botha, who is the party's national leader.

Mr. Treurnicht's victory, by a 63-35 vote over Labor Minister Stephanus Botha, a candidate of the party's reform wing, was the culmination of a lengthy struggle between the two factions in the party. The Treurnicht wing has opposed almost all the most radical reforms introduced in recent years, saying they ultimately will lead to the domination of the white minority by blacks.

Mr. Treurnicht, 57, dubbed "Dr. No" by the antigovernment press, is the first to argue that even minor concessions to blacks — for example, to allow them to own land and to operate businesses — will eventually bring down the entire structure of white power.

Upholding Tradition

At a time when the government of South Africa is cautiously moving away from the rigid apartheid concepts that dominated its policy since 1948, Mr. Treurnicht has vigorously defended the white supremacist tradition. Like Mr. Botha, who was assassinated in 1966, Mr. Treurnicht has been a member of the Dutch Reformed Church, editor of an influential Afrikaans newspaper and a parliamentarian.

He has not made a secret of his intention to become prime minister, a post for which he would be a strong contender. Mr. Botha stepped down in the meantime, his election to a Cabinet post, leaving him in the relatively minor post of deputy minister for black affairs.

After yesterday's vote, Mr. Treurnicht said that, despite his views on racial reform, he is a realist who would place the national interest first. He also said he would endeavor to maintain the unity of the ruling party, an alliance of the pro-government papers and the party that broke up if the Treurnicht faction uses its new power to block racial changes regarded by the reform wing as essential to white long-term future.

Although a split is seen as unlikely in the short term, some reformers believe that it ultimately could aid the prospects for reconciliation between whites and blacks. Freed of the deadweight of the conservative faction, the reformers might be able to form a new ruling coalition with elements of the existing opposition parties, which favor varying forms of power-sharing with blacks.

However, a more likely outcome of Mr. Treurnicht's rise to power is a slowdown in racial reform as the two factions in the party seek to maintain a show of solidarity. Prime Minister Botha, like his predecessor, John Vorster, is likely to consider party unity an overriding priority.

The concern for party unity goes to the roots of Afrikaner history. After the great trek in the 1830s and the Boer War at the turn of the century, the Dutch-descended Afrikaners developed a determination to regain control of the country from English-speaking whites whom they saw as interlopers. The political expression of this drive

was the National Party, founded in 1914, which eventually took power in 1948.

In its three decades in office, the party has worked to consolidate Afrikaner power by placing Afrikaners in almost every position of power in the government and by extending the racial laws to hold off blacks. Despite growing internal dissent on racial matters, especially since the Soweto riots in 1976, fear of a schism that would weaken Afrikaner power to the benefit of English-speaking whites and blacks has succeeded in holding the factions together.

In his eight weeks in office, Prime Minister Botha has backed limited racial reform, pushing for early implementation of a constitutional reform plan — opposed by Mr. Treurnicht — that would give a share of national power to Indians and those of mixed race. But the new government leader will have to tread warily in his relations with Mr. Treurnicht, who has the advantage of being the party's most eloquent public speaker.

A clash between the two men could occur Dec. 7 when Mr. Botha will tell Parliament what actions the government intends to take against officials involved in a burgeoning political and financial scandal surrounding the Information Ministry. Mr. Treurnicht, a strict Calvinist, is believed to favor tough action against any proven wrongdoers.

Arabs Start Adjusting to World Market

SHARJAH, United Arab Emirates (WP) — At first glance, the luxury high-rise apartment houses lining Boon Avenue resemble the ocean-front towers along Collins Avenue in Miami Beach. Most of the time, however, the only sound to be heard is the creak of loose scaffolding swinging in the hot breeze. Sharjah, which built far beyond its tiny population's needs, resembles a ghost town.

Just up the Gulf, Dubai is completing construction of a drydock that will accommodate supertankers twice the size of any ship yet built. Most experts agree that the drydock will not be profitable for decades.

Kuwait, anxious to keep its contractors occupied, is busily tearing down buildings to put up new ones. Most of the structures being razed are less than 10 years old.

In Saudi Arabia, a new international airport is being built outside Jeddah to help handle the millions of Muslims who make the annual pilgrimage to Mecca. The cost: \$7 billion — 10 times that of the most expensive new airport in the United States, at Dallas-Fort Worth.

With more than \$50 billion in oil revenue to spend annually, the Arab states that line the Gulf have become the 20th-century El Dorado. They are the envy of every developing country in the world.

Olympian Plans

But in the five years since the Gulf Arabs' wealth soared dramatically, many of the Olympian development plans they launched have gone amiss.

"There was a false sense of security on the Gulf that everything was possible," remarked Yusuf Shirawi, Bahrain's minister of industry and development.

A major problem was that the feudal rules of the tiny sheikhdoms along the Gulf tended at the outset to give priority to projects that they felt symbolized a modern state.

Hitler Disc Banned From Paris Auction

PARIS, Nov. 26 (AP) — The sale of a disc reproducing a speech of Hitler in 1933 has been banned by Paris police — the third time in a week that auctions recalling the Nazi regime have been forbidden in France.

The recording was to have been sold at a downtown Paris hotel this weekend but was removed from the auction of old records owned by a pre-war private radio station.

Earlier this week, Paris police chief Pierre Soumerville announced he was forbidding a planned auction of objects belonging to Hitler from taking place at the central Paris auction house on Dec. 5.

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"There was a false sense of security on the Gulf that everything was possible," remarked Yusuf Shirawi, Bahrain's minister of industry and development.

A major problem was that the feudal rules of the tiny sheikhdoms along the Gulf tended at the outset to give priority to projects that they felt symbolized a modern state.

Dubai and Sharjah, for instance, both felt they had to have modern airports capable of handling jumbo jets. The two resulting airports are much closer together than Washington's National and Dulles, and Dubai's airport is closer to Sharjah than to the city of Dubai.

In all, four modern international airports now serve the string of seven states that have become the United Arab Emirates. Transportation experts say one airport — two at the most — would handle the foreseeable traffic with ease.

Competition for Prestige

"All of the Gulf states somehow got caught up in this competition for national prestige," a U.S. diplomat said.

The inclination of the Gulf states to sign up for expensive prestige projects was undoubtedly helped along by Western businessmen and promoters eager to turn a fast profit.

Dubai contracted to build more than 70 shipping berths at the port of Jebel Ali — a project that will give the tiny state, for reasons obvious only to its ruler, a larger port capacity than New York City. Bahrain built an aluminum plant. Qatar ordered up a steel mill.

Few rulers seem to have given much thought in these heady days to whether there was any need for these installations or whether their products would be competitive on the world market.

Because most of the aluminum market in industrialized countries is under some form of trade protection, Bahrain wound up initially stacking nearly all its aluminum production outside the plant.

Even countries with seemingly bottomless oil wells, however, could not afford to continue wast-

ing money at this breakneck pace indefinitely.

"The Wild West days came to an end in 1976," said Steven Buck, a commercial attaché at the U.S. Embassy in Kuwait. Mr. Shirawi saw June 1977 as a turning point, when the Saudi government turned down a bid to construct a power plant for the heretofore vast, that the estimate was simply too high.

The shift to a more conservative view of development all along the Gulf coincided with the first indications of an easing in the world demand for oil.

"We have had a big boom," observed Mansour Saad Al-Otaibi, oil minister of the United Arab Emirates. "But it cannot be maintained if we

have to go through the economic cycle."

One result of this more realistic outlook was this spring's crash of the Kuwaiti stock market after a year of wild speculation that had often seen prices double in weeks.

Prices Slacken

Elsewhere around the Gulf, real estate prices — driven up as much as 1,000 percent by oil fever — began to soften. In Saudi Arabia, the inflation rate, which had been running at 40 percent, dropped to around 10 percent.

Saudi Arabia also has taken note of the difficulties it can expect in breaking into established world markets by enlisting Mobil, Shell and other U.S. firms in its effort to build petrochemical plants and huge oil refineries.

The Saudi hope is that these U.S. companies will help the new Saudi plants gain access to Western markets for their refined petroleum products. Even this hope may rest on a shaky footing.

Ghazi Gosaibi, the Saudi minister of industry, said that his government expected to capture only 5 percent of the world market for refined petroleum and petrochemical products when its new plants are operating at full capacity.

Even today, however, there is a world glut of refinery and petrochemical plant capacity. Some plants are operating at less than 70 percent of capacity. Western companies seem unlikely to let Saudi Arabia move into an already crowded market without a fight.

"Why should they expect that we cut back our petrochemical plants to subsidize theirs?" asks James Redding of the Paris-based International Energy Agency.

The outlook for development in the Gulf, even well thought-out development — thus looks highly uncertain.

"The really monumental failures," one Western diplomat warned, "are still under the line."

A number of Gulf leaders, moreover, are rapidly becoming aware that they face a clouded future. "There is a lot of soul-searching going on now on the Gulf," Mr. Shirawi said. "This is a time of reckoning."

Nigeria Trying to Avoid Drowning in Oil

By David Lamb

LAGOS, Nigeria, Nov. 26 — They were heady days, bursting with the excitement of sudden wealth, full of visions that knew no bounds: Nigeria had oil!

Almost overnight, Nigeria began walking with a swagger. Millions emerged; a privileged class was born. The able-bodied left their farms and poured into Lagos and Port Harcourt and Ibadan. And Nigeria began writing checks to finance its dreams of grandeur at home and prestige abroad.

The morning after was inevitable, but in those days plans were made or ground broken for seven additional universities, 13 new television stations, 34 new prisons, new international airports, new stadiums and a new federal capital. Money was no object, and in 1975 civil servants won 60-percent pay raises, backdated tax-free for 10 months, followed by similar increases for the trade unions.

More than \$3 billion was set aside to overhaul the communications system, \$3 billion more to build 13,000 miles of roads and \$2 billion for a petrochemical plant. An international black arts festival was held for \$200 million and an

international trade fair for \$100 million. A vanguard of 50,000 young Nigerians was sent overseas to train as technicians.

Cushioned by oil revenues that shot from less than \$400 million annually in the early 1960s to more than \$9 billion a dozen years later, Nigeria put together a five-year development plan (1975-80) that in reality was only a shopping list, establishing no clear priorities other than growth itself. The plan was based on pumping 3 million barrels of low-sulfur crude a day, about one-third more than Nigeria actually will produce because of diminished world demands.

Today this country of 80 million is learning the danger of having a one-commodity economy. Although it remains the most dynamic country in black Africa, Nigeria knows that petrodollars alone will not bring prosperity, and the world's sixth largest oil producer is modifying its ambitious goals and preparing for penny-pinching frugality.

"We must all embark on the greatest care and economy to expenditure by all public institutions, and a return to sanity in the interests of the national economy," the head of state, Lt. Gen. Olusegun Obasanjo, said recently. "The nation must cut its costs according to its means."

The government has auctioned 2,000 official limousines, frozen wages and prices to stem the 30-percent inflation rate, cut back expenditures by 10 percent, banned a lengthy list of imports ranging from toothpicks to macaroni, scaled down many of its development projects and restricted the release of foreign exchange. By the end of the year, Pan American World Airways will have \$8 million tied up here in local currency that is not convertible into a hard currency.

No Government Coordination

Some of the problems are of Nigeria's own making, reflecting bureaucratic inefficiency and technical inexperience. The government overspent with virtually no coordination between departments, a situ-

ation that many unscrupulous businessmen were happy to exploit. The government, for instance, gave contractors 30 percent of costs in advance for construction jobs because of high start-up expenses in Nigeria. Some contractors merely pocketed the millions of dollars of advances and returned to Europe or the United States, having invested little more than the price of an airplane ticket and a hotel room. On other occasions, Nigeria ordered technological equipment overseas, made payment after a bill of lading was received and ended up with crates full of sand.

Other problems are the result of Nigeria's dependence on oil, which accounts for 85 percent of government revenues. From a peak production of 2.3 million barrels a day in 1974, production fell to a low last March of 1.5 million barrels. Economists attribute the decline largely to Nigeria's poor pricing policy and supplies of low sulfur crude coming on stream in the North Sea and Alaska.

Hoping to alleviate the decline, Nigeria cut its prices by 51 cents per barrel between last January and April. The new pricing policy, combined with Saudi Arabia's outbreak of low sulfur exports, has helped push Nigeria's daily production back to slightly more than 2 million barrels a day, a pace the industry should be able to sustain, economists say.

30-Year Reserve

Nigeria, which owns 55 percent of its oil industry, has known reserves of 2.7 billion tons, enough to last 30 to 40 years at the present extraction rate. Nigeria also has huge natural gas reserves that are being exploited, with exportation expected to start in the early 1980s.

As a member of the Oil Producing and Exporting Countries, Nigeria has been moderate. Although it is a capitalistic nation with a new constitution taken from the U.S. model, Nigeria follows a foreign policy of nonalignment. It continued to sell oil to the United States during the 1973 oil embargo.

This year Nigeria will have to borrow \$4.5 billion to finance its development. About half of the amount will come from overseas lenders, thus increasing Nigeria's dependence on Western money interests. Last January, Nigeria obtained a \$1 billion loan — the largest ever granted to a black African nation — from a consortium of Western banks.

The boom has faded and Lagos remains one of the world's most chaotic cities. But more than anywhere else in black Africa, one is struck by the sense that Nigeria is alive, pulsating, robust, cool.

African businessmen in Western suits hustle at a New York City pace along financial row on Broad Street. Taxi drivers roar — or more

Headly Days Are Over

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often, inch — through the narrow, dirty streets of Lagos, their horns blaring incessantly, bickering with their sweating passengers over the price of the ride. The marketplaces teem with the poor and the wealthy suburbs are filled with the rich.

Rural Exodus

Oil has provided Nigeria with its gusto, but it also has created many of its problems. Foremost among them is a rural exodus that has swollen the cities to unmanageable sizes, left the agricultural sector in a state of serious decline and all but crippled the existing urban infrastructure.

Corruption has become epidemic with the advent of fast, easy money. Purges of the bureaucracy to rid it of graft and inefficiency have left the civil service paralyzed, with few willing to make the smallest decision. Educational standards have declined so dramatically that most Nigerians with sufficient funds send their children to school abroad.

The military government, which next October will hand over the reins to civilians, shows every indication of being serious in its attempt to reduce expenditures, diversify the economy, cut waste and graft and start living within its means.

The alternative, it acknowledges, is to deny the one big dream that Nigeria has for itself: to emerge as black Africa's first real power and first developed nation.

Los Angeles Times

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Nkomo Rebels Say Australians Aid Rhodesia

LUSAKA, Nov. 26 (Reuters) — Joshua Nkomo's Rhodesian nationalist guerrillas yesterday accused Australia of sending aborigines to fight with Rhodesians in the country's bush war.

"When they are being recruited they are told that they are going to fight short people with big heads who use only bows and arrows," the Zimbabwe Peoples Voice, the official weekly publication of the Zimbabwe African Peoples Union, said today.

"As a result, the aborigines have a habit of charging into guerrillas as if indeed the latter were armed with no more than bows and arrows," the Voice said. "To their dismay, they have been confronted with sophisticated weapons and, above all, normal size human beings who are more than anyone's match as fighters. The aborigines are thus being killed like flies in the war in Zimbabwe."

The Voice said that the presence of the aborigines had been confirmed on Oct. 19, during a Rhodesian raid into Zamibia.

Mengistu in East Berlin

MOSCOW, Nov. 26 (AP) — Lt. Col. Mengistu Haile Mariam, the Ethiopian leader, arrived in East Berlin "for a friendly visit," after signing a treaty of friendship and cooperation with the Soviet Union, Tass said today.

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A Libretto for SALT

Observing the politics of SALT these days is like spending a night at the opera. Emotions are rising all around but it is virtually impossible to follow the story. The arms-control treaty still lies hidden in the wings but expert factions have formed on stage. President Carter acts scared, throwing money around to appease the treaty's likely opponents and even threatening to call it an "executive agreement" to evade the Senate's two-thirds majority rule. But he also talks serenely about the Russians' strength and intentions as though only paranoids would worry about them. The Soviet leaders, meanwhile, boast to visiting senators that they well understand our ratification process while demonstrating precisely the opposite: they will not be much help.

Is it really too late to provide for an orderly debate of this important subject?

• An agreement with a foreign government affecting the security of the nation is a treaty subject to the approval of 67 senators. If that is not Mr. Carter's reading of the Constitution, it ought at least to be his understanding of what Congress thinks.

• The debate of an arms-control agreement should not turn on anonymous disclosures of its major provisions. The privacy that negotiation once required is now routinely violated. So the treaty's main points need to be — and could be — published with the president's analysis of their bearing on Soviet and American forces.

• Mr. Carter's piecemeal bribery of the military lobby has become dangerous as well as cynical. If the price of ratifying SALT requires exempting the Pentagon budget from next year's budget-cutting, wasting funds on any civil defense schemes and rushing development of the MX and Trident 2 missiles, it may be too high for constituencies normally disposed toward arms control. Spending for military projects must be defensible on security grounds alone: arms control should not be a stimulant for arms expenditures.

Above all, the treaty debate needs to be focused on our underlying premises about Soviet military planning and capacities. The

main questions for treaty advocates and opponents alike seem fairly clear:

(1) Can the continuing Soviet military buildup be explained as essentially defensive, allowing for exaggeration of the danger that Moscow sees on several fronts? (2) Is nuclear arms control consistent with the Soviet-American rivalry for influence in various parts of the world? (3) Is the power of both nations to deter attack with the threat of a devastating counterattack secure for the foreseeable future? And, (4) how sure can anyone be that the Russians will hold this doctrine of mutual deterrence through the period of the proposed limitations?

Mr. Carter, at last, has implicitly recognized those questions — most notably in a recent conversation with Bill Moyers on public television. We can find no better way to highlight the discussion than to direct attention, with some emphasis added, to his main points:

"To be perhaps excessively generous, but not too far off the mark," Mr. Carter said, "I think first of all [the Russians] want peace and security for their own people and they undoubtedly exaggerate any apparent threat to themselves — and have to, to be sure that they are able to protect themselves."

"At the same time, as is the case with us, they would like to expand their influence among other people in the world, believing that their system of government, their philosophy, is the best."

"They spend more than twice as much of their gross national product on military matters but we are still much stronger and we will always be stronger than they are, at least in our lifetimes. . . . We can absorb, even if we had to, an attack by the Soviets and still destroy their country, and they know it. And vice versa."

"We don't intend to evolve, and neither do the Soviets intend to evolve, a capability to destroy the other nation without ourselves being destroyed by nuclear forces."

The president has given his answers; we await his evidence.

THE NEW YORK TIMES.

World Population

There is no denying the importance — psychological and otherwise — of the U.S. Census Bureau's report that the rate of growth of the world's population is apparently declining for the first time in three centuries. Population itself, it needs to be emphasized, is still growing at an epidemic rate of perhaps 1.9 percent, adding 80 million people (two Egypts, one Bangladesh) a year. And the rate of growth is down by a mere tenth of a percentage point, which is only about 4 million people (another Chad or El Salvador). But the decline conveys an unmistakable sense of a shift of immense forces. At least, it suggests the world is not fated to be overwhelmed by a rising tide of people. It implies that a measure of control over the global condition is perhaps restored.

The Census Bureau is the most conservative estimator around, and it is only confirming estimates previously made by others. So there seems little reason to challenge the basic slowdown it has now detected. The estimate relies heavily on China, which contains almost a quarter of mankind, but other expert estimates of China's trends have indicated even greater declines in its birth rate.

Less certain is why the rate has declined. Is it a result of family-planning programs, or overall development, or some mix of both? A "great debate" on this question continues. It's not academic. On the answer hinge fateful decisions on the direction and pace of economic and social planning all over the world.

The Census Bureau, inspecting its own new figures, declares that "the world population crisis appears resolvable." One must take this as an expression of hope. The new

slower rate of world growth is still substantially more than double the U.S. rate of population increase, and the rate in selected regions (Africa, countries and sections of countries has not turned around. Even if — a huge if — the overall rate continues to fall steadily, a zero rate would not be reached for almost 50 years. Even then the ratio of young people would insure that population would continue to rise. One only has to think of the planet's current fix and then note that optimists see the world's population doubling, to 8 billion, in 30 years.

Population growth, whether at the rate estimated in the last generation or the rate expected in the next, is a relentless force, imposing brutal demands on the world's resources and feeding social and political turbulence everywhere. Relief at a welcome but small change in the numbers cannot be allowed to disguise this pervasive fact.

President Eisenhower, regarding family planning as a "personal" matter, kept the United States officially aloof. A connection between runaway growth rates and the sort of global instability harmful to U.S. national security began to be perceived in the early 1960s. But only under President Johnson did the United States start developing effective family-planning programs. More recently, the Third World's concern for development, too often gratuitously counterposed to family planning, has diminished official American ardor for these programs. Ironically, this is happening just as their fruits, or so the family planners believe, are showing up in the global population statistics.

THE WASHINGTON POST.

International Opinion

U.K. Monetary Policy

In 18 years of exchange-rate stability and consequent low inflation under the Bretton Woods system, [Britain] failed to discover the secret of faster growth. There are many possible explanations — loss of empire and a slow adaptation to new realities, insular management and the class system have all been blamed. Certainly one cause, which was still not fully learned as recently as last April, was a constant drain of resources into the public sector faster than the economy could provide them. Under present floating arrangements,

monetary policy has emerged as the key to exchange-rate management, and is now an equally firm commitment. But the government has only now possibly learned, from a financially disappointing summer, that a firm monetary commitment entails a clear limit of fiscal freedom. The policy is unnecessarily costly now because of excessive government borrowing. In spite of this, some progress is visible. Inflation remains in check, and the economic indicators still show the recovery which resulted from reduced inflation."

— From the Financial Times (London).

In the International Edition

Seventy-Five Years Ago
November 27, 1903

LONDON — The recent arrival of Mr. William Jennings Bryan, twice unsuccessful candidate for president, has raised a curious problem of etiquette. It was against President Roosevelt that Mr. Bryan last failed, and the question was how should Roosevelt's ambassador to Britain act towards this unwanted guest. With grace, Ambassador Choate gave a luncheon for Mr. Bryan at Carlton House terrace. Mr. Arthur Balfour and others attended. Meanwhile, the visit of British parliamentary officials to Paris, which raises no such problems, is proceeding admirably.

Fifty Years Ago
November 27, 1928

LITTLE ROCK, Arkansas — The Arkansas superintendent of Public Instruction has banned Webster's Dictionary from use in any educational institution in the state by reason of the recently enacted anti-evolution measure. The new law forbids any book to say that man "descended or ascended from a lower order of animals." The dictionary describes evolution as a theory based on facts abundantly disclosed by every branch of biological study. Since this is false in Arkansas, the dictionary must be removed from all school libraries under legal penalty.



The Decline of Manners

By James Reston

WASHINGTON — Some very odd things have been happening recently in the conduct of relations between nations. For one thing, there has been a decline in manners. For another, a confusion of responsibility and authority. Some examples:

• At a sensitive point in the Middle East peace negotiations, the semi-official Egyptian newspaper, Al-Ahram, suddenly publishes what it describes as the official text of the Israeli-Egyptian peace treaty, which is still in dispute and negotiation. Why should the United States have to be surprised by such a propaganda trick?

• At the same time, the Israeli foreign minister, Moshe Dayan, complains to Israeli diplomatic correspondents that the United States has not been fair and evenhanded in dealing with the Middle East negotiations, but has tended to favor the Egyptians. This from the Israelis, who have been more favored by American foreign policy than any other nation on earth?

• At an equally delicate moment in the U.S.-Soviet negotiations for a strategic nuclear arms agreement, it is "disclosed" that the Soviet Union has sent to Cuba some MiG-23s, which may have the capacity to drop nuclear bombs on the United States. More on this later.

• Meanwhile, a congressman from California, accompanied by television crews, goes in Guyana in Latin America, with the admirable aim of finding out what is happening in the citizens of his own congressional district, and stumbles into a grisly tragedy in which he loses his own life and the lives of many others.

So something is clearly wrong here. If there is any common thread that explains these quite different things, it is an absence of trust. It has always been true in a way, but the decline of manners, the confusion of responsibility and authority are now getting much more serious.

It is not reasonable to believe that Al-Ahram would publish the disputed Israeli-Egyptian peace treaty without the approval of President Sadat. It is also hard to understand why Dayan would attack the United States for being pro-Egyptian, since Washington not only helped create the state of Israel, but has given Israel the "most favored nation" treatment ever since the last world war.

But something is beginning to change in the diplomacy of the world. President Carter, Secretary of State Vance, and Zbigniew Brzezinski, the chairman of the president's National Security Council, are taking a much tougher line.

To be frank about it, they are no longer willing to ignore Sadat's publication of the text of the Israeli-Egyptian peace treaty, or Dayan's charges of unfair or pro-Egyptian U.S. handling of the Middle East peace negotiations.

Public Smiles

Carter and Vance have been smiling about all this in public, but they are obviously irritated about it in private — particularly about what they regard as efforts by Sadat and Begin and Dayan to abuse them and take their peace efforts for granted.

This goes as well for the officials in the Pentagon, whoever they are — and the White House is trying to run them down — who have been putting out scare stories about the MiG-23s in Cuba in order to block a strategic arms agreement with the Soviet Union.

The administration has known for almost a year that the MiG-23s were going to Cuba. It has in-

formed the Armed Services and Foreign Relations Committees of the Congress of this fact, and has given them all the information available about the limited threat, as it sees it, of these planes.

What has troubled the administration, however, is that the opponents of the strategic arms agreement, and particularly members of the Joint Chiefs of Staff or their aides, have tried to use this MiG-23 deal as a propaganda weapon against a SALT II treaty with the Soviet Union.

When Sen. Abraham Ribicoff of Connecticut made an issue of the MiG-23s with Premier Kosygin in the Kremlin recently, Sen. John Glenn of Ohio told him that he had known about the MiG-23 deal for

Glenn's Argument

Any airplane could carry a nuclear weapon, Glenn said. He had a little plane of his own, and anybody could roll a nuclear weapon out the door of a Piper Cub, but the MiG-23s in Cuba, he said, were no arguments for raising objections to the control of strategic nuclear weapons.

Even so, the conduct of foreign policy is no longer a precise process of quiet negotiations between trained professionals, if it ever was, but increasingly a noisy and disorderly game of politics and propaganda played by amateurs, who

don't really know where they are going.

The tragedy in Guyana dramatizes the point. In popular terms, it seemed a reasonable investigation by a congressman and the press — good intentions, good TV pictures, good politics — but the actors on that tragic stage knew very little about the strange world of Guyana or the jungle, or the mad magic of Jim Jones, or the demented faith of his followers.

So there is a fundamental problem here between the old professional and the new amateur political and propagandist diplomacy. The old ways had their faults, but privacy, manners, and the clear authority of the executive branch of the government under the Constitution clearly have their uses.

The International Herald Tribune welcomes letters from readers. Short letters have a better chance of being published. All letters are subject to condensation for space reasons. Anonymous letters will not be considered for publication. Writers may request that their letters be signed only with initials but preference will be given to those fully signed and bearing the writer's complete address. The Herald Tribune cannot acknowledge letters sent to the editor.

Explaining Nixon to the French

By Adalbert de Segonzac

PARIS — Richard Nixon's visit to Paris, on his first trip to Europe since his resignation in 1974, once more brings up the controversy surrounding the former president of the United States.

For many Frenchmen, Nixon was the victim of a hostile U.S. press. And these people believe that Nixon did nothing worse than the presidents before him; his only mistake was getting caught.

Two former ministers, one of the Fifth Republic, and the other of the Fourth, asked recently: "Why did your American friends force out of office the best chief of state they have ever had?" These politicians were merely repeating what I have been hearing everywhere since I returned from the United States last year.

The Watergate scandal is a very complicated matter for Frenchmen to understand. First of all, it could never have happened here.

Investigative reporting without fear of scandal or regard for the persons involved is a purely American form of journalism. This is due to the presidential type of government in the United States, where the press assumes the role of warning public opinion against governmental abuses. This does not mean that the press aims to destroy, but to seek and publish the truth; a task that is enhanced by the competitive spirit prevalent in the United States.

And, above all, if there had been no scandalous situation, there would have been no scandal.

Furthermore, the courts — independent in the United States to a degree that would be astonishing here — confirmed the accusations of the press. Not just one court, but all of those involved, from that of Judge Sirica, who first heard the case, to the Supreme Court, which ruled down Nixon's request to withhold his "smoking gun" tapes from the public on the grounds that it would be damaging to the office of the presidency.

Watergate could never have happened here because Frenchmen do not have the same sense of civic responsibility that Americans do, because the idea that no man is above

the law is inculcated in Americans from the very first days they start school; a tradition that in France is considered somewhat naive.

Frenchmen are much more cynical. They feel it normal that certain laws should be bypassed, ignored or violated, such as the law against tapping telephones. After all, they say, all governments do it.

But basically, the difficulty lies in the fact that the political systems, the political philosophies in France and in the United States are fundamentally different.

In their interpretation of Watergate, Frenchmen make one major mistake. What the United States holds against Nixon is not so much in the fact that he broke the law, but that he lied about it afterward and that he got more and more stuck in a web of lies trying to hide his activities not only from the public but from the courts of his country, thereby undercutting his own role, which was to enforce the laws of the nation.

Unquestionably, some of his predecessors in the White House were guilty of the same sins, but never before Nixon has a president of the United States used his immense powers to perjure himself, to hide his mistakes behind the august monument of the presidency, to use government agencies one against the other, as he tried to do with the CIA and FBI.

Frenchmen may consider these to be venial sins. But American pragmatism is very different from the Cartesian rationalization of the French.

Americans recognize degrees of guilt. If a congressman gives in to the temptation of lying, that is regrettable, but tolerated to a certain extent under the political code in force there. On the other hand, the head of state must be beyond reproach and unassailable. He is the government of the United States. And a government that breaks its own laws would be a corruptive influence for society as a whole.

Among his other tasks, the president of the United States must up-

Notes From New Delhi

Politics Industry In City of Words

By William Borders

NEW DELHI (NYT) — One torrid day this summer, as the temperature passed 115 degrees Fahrenheit, a Jordanian diplomat stationed here went by the shop where his broken refrigerator was being repaired to find out why the job was taking so long.

To his great distress he learned that the repairman had put the task aside to work on someone else's. So, in a gesture of rage that was understandable to anyone who wants a cold drink on a summer day in Delhi, the frazzled diplomat took out a pistol and shot the refrigerator in its door, causing a diplomatic incident that sustained this gossip capital for quite some time.

Now, as the crisp, cool air of fall mercifully begins creeping back into the city of 4 million, the season for shooting refrigerators has yielded to "the season," a time of frantic social and diplomatic activity that contrasts with the torpor of summer and softens its sordid memories.

Women wear sweaters under their saris now when they step out for an evening's round of diplomatic receptions, and men, who were in shirtsleeves all summer at even the highest official level, begin appearing in suits or, if they dress Indian style, in fine Kashmir wool shawls of brown or tan.

New Delhi, with nearly 100 embassies and other foreign missions, regards itself as one of the major capitals of the world.

It has no great history or industry of its own.

National Day "An invitation to a major embassy function is quite prized," explained a businessman as he sipped a whiskey and soda at one of the dozens of lavish National Day receptions and noted which officials and ambassadors were there and which were absent.

If the host of that party, a European envoy, had been lucky enough to entice any Cabinet ministers, then the guests would have been sipping not whiskey but fruit juice since Prime Minister Morarji Desai's zeal for prohibition has produced, unofficially, the rule that the higher you go the drier it gets. Strong drink is still served at parties attended by even some high-ranking civil servants, although they are expected to abstain. But the alcohol disappears in the presence of Cabinet ministers, some of whom are said to take a private nip from time to time, and it is not unusual for an aide to telephone a host to make sure that no liquor will be served before a minister accepts an invitation.

Prohibition, which the prime minister has pledged to make total by 1982, is a major topic of conversation along the New Delhi cocktail circuit this fall as more and more "dry" days creep into the official calendar.

In a more general way the talk in New Delhi, as in other capitals, is politics, politics, politics — Byzantine, banal, even boring, but relentless: Did you see the latest clever posture that Indira Gandhi has as-

sumed in her attempt to make comeback? Did you hear that there is a new alliance of back-benchers trying to oust Mr. Desai by making a bid to think he will do about it? Indians say that if Bombay is a city of commerce and Calcutta a city of art, then Delhi is a city of words, which come in a flood never seems to end. Some complain that the words from the politicians and the officials are painfully irrelevant to such matters as the 200 million or 300 million Indians who did not get enough to eat today or the virtual collapse of the government's birth-control program.

The talk goes on: Do you think the defense minister, who is untouchable, can rally other members of his cabinet in his bid to oust the prime minister? Will Mr. Desai reshuffle the Cabinet, and if he does, do you think he can get more Moslems and Christians into it?

Foreign diplomats, hungry for intelligence to put into their back home, sometimes ask questions a dozen times at a reception. Officials and politicians, some of whom are frank to some knowledge that they attend the parties largely for the status and otherwise unobtainable whisky or U.S. beer.

After Mr. Desai, the political guest who creates the greatest stir at such affairs is Mrs. Gandhi. She seldom made the diplomatic rounds when she was prime minister but has done so more frequently since being elected early last year as a consequence of the controversial period of authoritarianism that became the finale of her 11 years in office. Even when she was prime minister, her arrival at a reception did not turn off the bar, although she says that, in the Hindu tradition, she drinks nothing stronger than fruit juice.

Vexing Question

Before her recent re-election to Parliament, a big step along the comeback trail, the matter of whether to invite her to this or that reception was a vexing one for diplomatic hosts. When former Chancellor Willy Brandt came for a visit last year, the West Germans invited her; when President Carter came, the U.S. ambassador, Robert Goheen, did not.

Mrs. Gandhi has long stopped apologizing for her authoritarianism; indeed, she has even boasted of making the claim that she was a freer country in her day than it is now. Although her opponents consider her lack of remorse brazen — and they say so — her political strength is increasing steadily, and many conversations in the endless swirl of Delhi politics are based on the premise that she might be in power again one day.

So the talk goes on and on in this city of words. As usual, the great deal of it seems scarcely more substantial than all that good gossip last summer about the perspiring diplomat who felt that the only course of honor lay in shooting the refrigerator.

Shifting From a Dollar Standard to Multicurrency Reserves

By Christian HERNAIN

**TOP 50 MANAGING GROUPS OF BANKS IN SYNDICATED EUROLOANS
DURING THE FIRST 10 MONTHS OF 1978**

*L = Lead Manager *M = Manager *C = Co-Manager

(Source: Capgemini International Finance Data Inc.)

By Carl Gewirtz

Increased Prepayment Is Plaguing Bankers

Borrowing

"The role of the Eurocurrency market has been the whole been highly beneficial," says Alexander Lamfalussy, the economic adviser to the BIS. "Without it, the intermediation of the OPEC surplus could not have taken place properly." But the market's main job of recycling those surpluses to deficit countries is completed.

"We are now in a situation in which the world balance of payments picture is much more balanced than at any time since the beginning of the OPEC stoppage," he says, "with the obvious exception of the United States."

The U.S. practice of financing its deficit by issuing dollars has resulted in a mass of unwanted dollars sloshing around the international marketplace. The supply of dollars

dom of Spain is one example. It decided in the third quarter of 1978 to prepay a \$1 billion 5-year loan signed in August 1976, because its balance of payments exceeded \$7 billion.

Prepayments

Whatever the reasons, Euro-bankers do not like to face prepayments because their returns could be lower if the loan is refinanced, or their portfolio is unbalanced if the loan is simply repaid. Tony Constance, the general manager of Manufacturers Hanover Ltd., summed up the feelings of the international banking community when he said: "The ideal would be no prepayments at all."

Unfortunately for bankers, the

(Continued on Page 11)

By Guillaume Basse

One effect will be to increase NODC [nonoil developing countries] debt service charges by several billion dollars . . . interest payments have been regularly increased in line with this year's rise in short-term Eurodollar interest rates.

have been regularly increased in line with this year's rise in short-term Eurodollar interest rates.

For example, assume that NODC Eurocurrency debt totals about \$125 billion and that interest on the entire amount is tied to the six-month Eurodollar offered rates. Under such circumstances, the 4.5-point increase in Eurodollar rates since the beginning of the year would add about \$5.6 billion to the interest burden of the NODCs. This represents quite a blow since the increase in interest payments would be about 50 percent.

down, NODC exports to the United States could drop at a time when interest payments remained high. This could be quite a squeeze.

Another source of restraint on the export earnings of the NODCs has been a proliferation of trade barriers, quotas and tariffs in the wealthy countries, which have tried to keep their labor-intensive industries protected from low-cost competition. Although the actual impact on export earnings of NODCs is difficult to measure, many analysts say protectionism represents a danger to the financial health of the NODCs.

also rise if the Organization of Petroleum Exporting Countries (OPEC) raises the price of crude oil in December. Unlike Japan and countries of Western Europe, the NODCs have linked currencies to the dollar. Therefore, there is no question of currency devaluation offsetting any rise in NODC oil import costs.

Debt Service

Another problem, which is to quantify but is nonetheless serious, is that there have been delays and large cost overruns

A Squeeze

Moreover, tight U.S. credit could also have a considerable impact on the exports of the NODCs. The United States is by far the biggest importer of the raw materials and semi-manufactured goods produced by the NODCs. Assuming that U.S. interest rates start to peak only after the U.S. economy slows

Ernest Stern, a vice president of the World Bank, recently warned that protectionism poses a serious threat to developing countries' exports of textiles, footwear, electronic products and a host of other manufactured goods.

While NODC exports may suffer as the result of a slowdown of the U.S. economy and rising protectionism, their imports costs could

many of the development projects financed by international banks. Not only is more capital needed to develop infrastructure, but the delays in getting projects underway means that the cash flow from these projects will not be available to meet scheduled debt payments.

International bankers, of course, do not really believe that the

However, bankers argue that as long as their loans are widely distributed among many countries and that the exposure in any one country is not too great, then there is not much risk as far as a loss of earnings is concerned.

Basically, when a loan is rescheduled and payments are missed, only a loss of earnings is involved. It is assumed that the principal will be repaid when the country is able to do so.

Implicit in this attitude is that no country would voluntarily default on its external debts in the sense of flatly refusing to pay. Such a posture would force a country into isolation since banks could refuse to finance trade, as well as capital

Debt Service

extremity, banks could sue any third party that collected funds from the defaulted country. Thus, a country that voluntarily defaulted on its external debt would probably find its currency valueless as far as international transactions were concerned. Obviously, few would countenance this.

North Korea would be an example of the closest any country has come since the Second World War to flatly refuse to honor its external debt. In the last few years, North Korea has had discussions with

(Continued on Page 8)

German Banks

There are six German banks among the top 50 managers, but none of them appears in the first ten. Actually, it seems that the Japanese emergence is responsible for the decline in the importance of German houses. An interesting feature: Even though only slightly, the Westdeutsche Landesbank has superseded the powerful Deutsche Bank, Commerzbank and Dresdner. Generally speaking WestLB, which does not have private shareholders, appears to be becoming slightly more dynamic than the German private banks. The latter always point out that they cannot lend at too-low spreads because they have to provide their shareholders with a satisfactory return. This may be the answer, but the French nationalized banks, which have no shareholders, appear to be of the type of shareholding does not affect aggressiveness as far as lending is concerned.

In fact, banks are competitive either because they have a larger volume of funds available for lending or for commercial reasons. During the first seven months of 1978 for example, U.S. East Coast banks were much more active on the Euro market than their West Coast counterparts because the demand for domestic loans was lower in the East than in the West.

The case of British banks is characteristic of a commercial approach. Two UK establishments, National Westminster and Lloyds Bank International (LBI), are included in the top 10 with NatWest attaining the prestigious third place. NatWest is by nature very secretive, but it seems to have followed a similar policy to LBI. No. 10, which is much more forthcoming about its activities. Lloyds Bank International has never tried to hide the fact that a period of falling spreads can still be profitable for it. It allows the most competitive banks to enter into relationships with new customers, the commercial by-products of which compensate for the low margins granted on financial loans.

Euromarkets

Over-Liquid Dollar Market Is a Symptom and a Cause of Ills

(Continued from Page 7)

dollars in the form of loans to the rest of the world where someone either hedged or speculated. At the same time, Eurobanks withdrew deposits from the United States and placed them outside.

"The Eurobanks did not speculate because if you look at the figures, you see the spot position in dollars increased — they were not buyers of dollars. But they supplied credits. If the U.S. banks and the Eurobanks had not been able to lend dollars so substantially, it would have been much more difficult for those who speculated to sell dollars."

Reverted

Essentially, the Euromarket has reverted to its pre-1973 behavior of amplifying the U.S. deficit's liquidity-increasing effects.

"We are now back in a situation in which the expansion of international bank lending has become supply-led," pushed by the liquidity of the system rather than pulled by credit demand, says Mr. Lamfalussy.

"Quite a few deficit countries were able to finance more than their deficit," he adds, noting that "in many instances, nonoil developing countries have become net suppliers of funds to the Euromarket" as a result of having built up their reserves through Euromarket borrowings.

"I'm not suggesting that we are back to 1971-73, where international liquidity creation was excessive and inflationary. What I am saying is that we have moved away from the period where the international liquidity-creating effect of the Euromarket was clearly a beneficial thing. We are now between the two situations. We're not back to the '71-73 situation because then there was overfull employment. Nevertheless, we do have a liquidity creation which, to my mind, is excessive."

Margins

One obvious result of this situation has been the sharp decline in margins banks charge on syndicated loans — as low as a half percentage point over the London Inter-

bank offered rate (Libor) for borrowers who had to pay 1½ percent over Libor three years ago — accompanied by a stretching of maturities to up to 15 years compared to the seven-year maximum a few years back. At the same time, the size of loans has increased sharply, with amounts of \$300 million to \$500 million rather commonplace nowadays.

"I doubt that such margins are sufficient to cover banks' needs to finance capital and reserves," says Mr. Lamfalussy — a view shared

by Governor Henry Wallich, the member of the 12-man Federal Reserve Board who monitors the Euromarket. "I'm very much concerned about the fact that when they lend they do it at so narrow a spread that they're diluting their capital and their earnings," Mr. Wallich says.

"Bankers ought to realize their capital is being wiped out gradually by inflation. If a bank has \$100 million in capital and inflation is running at 7 percent, the purchasing power [of the capital] is that

much less," he explains. But he says bankers often seem to forget to deduct the inflationary erosion from their after-tax earnings on capital.

The U.S. banks appear to have got this message as the level of their lending activity has slowed considerably — an increasing resistance to the low margins coupled with a pick-up in loan demand at home. Nevertheless, overall lending in the Euromarket will set a new high this year due notably to the increased participation of West German and Japanese banks. According to data

compiled by Morgan Guaranty Trust, \$55.93 billion of Eurocurrency bank credits were completed in the first 10 months of this year, topping the record \$41.77 billion for all of last year.

The highly liquid monetary conditions and the high level of lending activity are likely to be altered in the coming months. The availability of funds is likely to be sharply reduced and borrowing costs — both the Libor base and the margin banks charge — are bound to rise.

In its battle to defend the dollar, the Fed has taken two steps aimed at increasing the demand by U.S. banks for Eurodollars by removing the reserve requirements on such borrowings and by raising reserve requirements on banks' domestic certificates of deposit.

"The combined effect will tend to slightly raise rates on Eurodollar deposits and this will have some effect on pulling nondollar funds into dollars and thereby strengthen the dollar," says Mr. Wallich.

At the same time, the Fed is

tightening domestic monetary conditions and has lowered its money-supply growth targets.

"The growth of high-powered money in the U.S. domestic economy sets the foundation for the Euromarket system in that it sets the level of real interest rates in dollars applied worldwide," says Amex Bank economist Kevin Fakenham. "By reducing the growth rate of high-powered money in the United States you put pressure on all forms of dollar moneys throughout the domestic and international systems. The effect would restrict the growth of the Euromarket and if the Fed continues with its policies, which we expect it will, it will reduce quite markedly the easy conditions in the Euromarket seen in the last two years."

Yet another likely restraint on international bank lending in the coming months, he notes, is the capital position of the banks. Their willingness to intermediate both risk — accepting deposits from one to lend to another — and time, using three and six-month deposits to make five to ten-year follow-on credits, is a function of their own expectation of future profitability as well as their own gearing, the extent to which their profits over the past year enable them to continue to build up the level of their assets (new loans) without running into constraints imposed by the relationship to their capital base.

"I think there are signs they are going to run into gearing constraints," says Mr. Fakenham, due to the lower profitability resulting from the narrowing of lending margins. "This would have happened much sooner had it not been for the activity of the German and Japanese banks who continued to be aggressive lenders all of this year. The American banks had already begun to feel the pressure I've been talking about."

In addition, he sees a sharply curtailed role for the German and Japanese banks. Domestic economic activity is picking up in both countries and the banks will be forced to do more business at home. At the same time, the pace of their international lending will be affected by the strengthening of the dollar.

"The capital bases of those banks in dollar terms has increased by a phenomenal amount — in the case of the Japanese banks by a factor of 30 percent. The increase in their international lending ability

which has come from the fact that the dollar will also not continue to be overvalued."

Developing Countries

It remains to be seen how all this will affect the ability of the developing countries to continue tapping this market to finance their industrial development. The international banks essentially have usurped the role traditionally played by risk capital in financing economic development in a number of states deemed capable of succeeding. Private investors, of course, wary of the apparent instability and uncertain reception, were not competing to play a role.

Financing development loans falling due within five to 10 years is a riskier business than financing permanent capital. But banks maintain that, in fact, the loans are permanent, although banks obviously have the option of not renewing them. The point the experts make is that banks are obliged to deploy their funds so that the margin on the loan equals the bank's return is greater than their own cost of money. Thus, banks need only concern themselves with the borrower's ability to continue servicing the loan and, assured of that, should be willing to continually roll over maturing loans.

"If the bank loans are actually put to work, I see no reason why banks should not be willing to roll over to finance an ongoing process of this sort," says a senior economist at the Organization for Economic Cooperation and Development. "At the beginning, the process may look risky, but at mid-point, when you can see the country actually developing, financing should become ever more attractive" to the banks.

While the cost of new borrowing is bound to increase in coming months, banking experts see no reason for the developing countries to fear being crowded out of the market. For while lending terms will harden, the demand for credit is expected to decline. Most of Western Europe will have no need to tap the international market next year as they are expected to register current-account surpluses, and while U.S. economic growth is expected to slow — if not slip into recession — credit demand by U.S. businesses is bound to fall.

Tighter Credit Expected to Squeeze Third World

Already some fairly large rescheduling of bank loans has begun.

(Continued from Page 7)

creditors, without reaching a lasting agreement. The country is still believed to be insolvent. However, two creditor groups have been formed to discuss the repayments problem. A group led by Morgan Grenfell and Co. has been charged with dealing with bank loan defaults, while a group led by the Australian and New Zealand Banking Corp. is monitoring trade bill defaults. The Bank for International Settlements (BIS) has listed North Korea's debts to private banks at \$560 million. Its other debts are not known but could total about \$2 billion, including about \$700 million owed to the Soviet Union, specialists say.

While some NODCs may get into financial trouble in the years ahead, some debt rescheduling in the past has worked well. For example, Argentina was considered to have had almost intractable problems in 1976 when its debt was rescheduled. At the time, the nation was gripped by civil strife, inflation was running at more than 70 percent and its trade deficit was widening. Today, only two years later, the country is enjoying a certain amount of prosperity. Its international payments are in better shape than many industrial countries and its borrowings are well received by the banking community.

In 1975, Indonesia looked as if it were in serious trouble because of

mismanagement of the national oil company, Pertamina. Now, Indonesia is paying its debts on time and is currently raising \$300 million over 10 years at a fairly prestigious lending margin of 0.75 points above interbank Eurodollar offered rates for the first five years and 0.875 points above the rates for the remaining five years.

Nevertheless, international bankers will undoubtedly be faced with the need to reschedule a fairly large amount of debt in the coming two years. Already some fairly large rescheduling of bank loans has begun. Turkey has proposed rescheduling of about \$3.36 billion of its debt coming due before Jan. 1, 1981, in the form of a seven-year loan with a three-year grace period before repayments of principal shall commence. The loan would bear interest at 1.75 points above interbank Eurodollar offered rates. In addition, Turkey has asked banks to participate in a new seven-year loan facility of up to \$500 million on the same terms.

Turkey has already reached agreement with 14 countries in the Organization for Economic Coop-

eration and Development (OECD) to reschedule about \$1.46 billion of debt. It has also arranged certain borrowing facilities with government agencies. As part of the proposals Turkey has agreed to accept surveillance by the International Monetary Fund (IMF) and has instituted an austerity program aimed at increasing exports, reducing domestic consumption and eliminating deficit spending by state enterprises.

Peru

Peru has had debt servicing problems since 1976 and has reached various ad hoc arrangements with banks in the last two years.

Earlier this month, Peruvian Finance Minister Javier Silva Ruete reached a tentative agreement with OECD governments to reschedule \$568 million of government-to-government debt coming due in 1979 and 1980. The rescheduled amount would be repaid over seven years after a two-year grace period.

In addition, Mr. Silva Ruete said he has reached a similar preliminary agreement with banks to reschedule about \$800 million of debt

coming due in 1979 and 1980. The debt would be stretched over 7.5 years with a three-year grace period. However, bankers say the financial terms for this extension are still being negotiated. In July, a syndicate led by Manufacturers Hanover Trust Co. agreed to postpone debt repayments of \$185 million falling due this year until Jan. 3, 1979. It is not yet known whether the Manufacturers Hanover bank will agree to a further extension, but there appears to be little choice.

At the end of last December, Peru's total external bank debts came to about \$3.4 billion.

Zaire has not yet been able to win international backing for its debt restructuring plans. At a meeting in Brussels this month between Zaire officials and representatives of 12 governments as well as delegates from the IMF, OECD and World Bank, Zaire was granted only limited credit facilities until a thorough reorganization plan can be worked out with representatives of the IMF, probably early next year.

Since 1976, Citicorp has had preparations in hand for a \$250 million standby facility for Zaire. Initially, it was envisioned that disbursement of the facility would depend on Zaire's catching up on its overdue interest and principal payments. Since Zaire was unable to

comply, the facility was later modified so that disbursements would be mainly related to financing specific import transactions, deemed necessary for export production. So far, however, the facility has not been put into operation, bankers say.

Zaire's external debts are estimated at about \$3 billion, of which

overdue interest and principal is estimated at between \$600 million and \$700 million.

Some other countries are having

debt payment problems. Jamaica recently had to reschedule some of its external loans after local terrorism drove away the tourist trade, and exports of bauxite and alumina encountered production snags and falling world prices.

Sudan is reportedly about one year behind on its debt service. It owes about \$725 million to banks and another billion dollars or so to the Arab oil-exporting states. However, the country has instituted a program under which foreign exchange receipts are blocked and released only for export-related projects.

The political situation in Nicaragua remains unsure, but it is certain that the country will have to stretch out its short-term external bank debts.

Bankers say that Zambia is making its payments on time. However, the landlocked country still has problems shipping its principal export, copper. The Benguela railway through Angola is still closed, and until recently Zambia's border with Rhodesia was closed, which represents the only other route for copper shipments.

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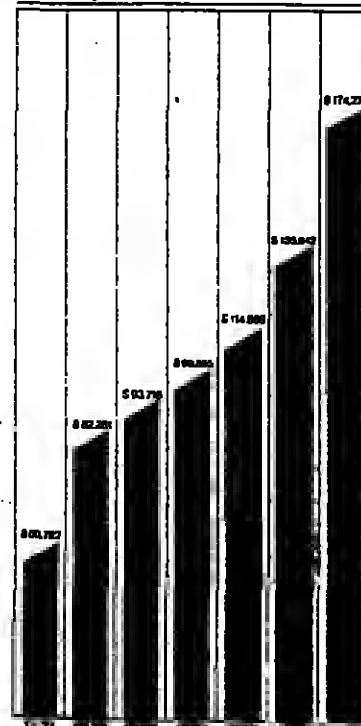
* Interim results 9 months to September 30, 1978:

■ Net income: \$24 million ■ Earnings per share: \$3.55 ■ Revenues: \$382 million

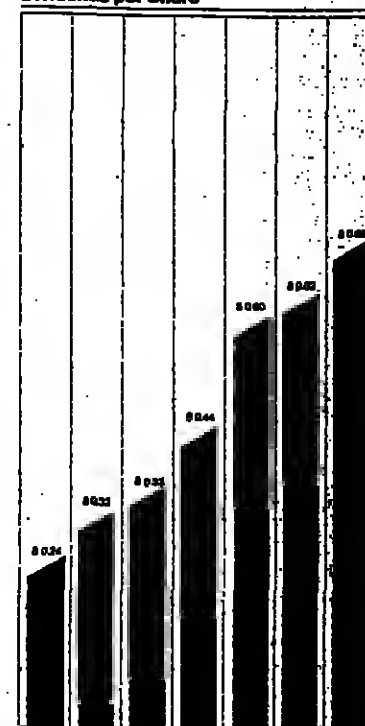
Total Assets



Total Capital Funds



Dividends per Share



Euromarkets

Multicurrency Options Allow Borrowers to Cut Loan Costs

By Anne Segall

LONDON (IHT) — International borrowers have received more than \$300 billion from banks in the United States in the last 18 months. The debt is beginning to cost them dearly, however, as the banks' cost of funds rises. This means that the banks' cost of funds is rising, and they are passing it on to the borrowers. The banks' cost of funds is rising because of the increase in the cost of money in the United States. The banks' cost of funds is rising because of the increase in the cost of money in the United States. The banks' cost of funds is rising because of the increase in the cost of money in the United States.

As a result, international borrowers have begun to scramble for ways to reduce their borrowing costs. One way is to use multicurrency options. These options allow borrowers to choose the currency of their loans. This can be very helpful if the borrower expects the value of the dollar to fall. In that case, borrowing in a foreign currency would be cheaper. Multicurrency options are becoming more popular as borrowers look for ways to reduce their borrowing costs.

about the same in the mark and just 4 percent in Swiss francs. The gap between these and long-term dollar rates is bigger than it has ever been. Many borrowers believe that it is unlikely to narrow, given that the United States appears to have entered a period of comparatively high inflation.

Fairly Sanguine

The interest gap is also so big as to make borrowers feel fairly sanguine about the long-term exchange risk of borrowing in hard currencies. According to the Loodoo stockbrokers, Strauss, Turnbull, the dollar would have to fall by around 25 percent against the yen and 30 percent against the Swiss franc in the next 10 years to eliminate the interest savings obtainable by borrowing in these currencies instead of the dollar.

Even so, few companies would be prepared to take such a long-term

risk unless they had matching assets in the currency concerned. But countries are less wary. Many have such pressing financial problems that they are inclined to turn a blind eye to the future for the sake of making ends meet now.

Figures produced by Morgan Guaranty of New York show that a couple of years ago, 60 percent of all international bond issues — including those by foreigners in Germany, Switzerland and other domestic markets — were in dollars. Now it is only 40 percent.

In the first three-quarters of the year alone, foreigners — mainly governments and their agencies, as well as international organizations like the World Bank — managed to raise \$5 billion worth of Deutsche mark bonds, one-quarter of those within Germany, the rest on the international capital market.

They also raised \$4 billion worth of bond finance in Switzerland and \$3 billion worth in Japan.

Latin American countries (e.g. Venezuela, Brazil and Mexico) put in a regular appearance in these markets. But Canada, Australia, New Zealand and Denmark were the biggest borrowers of all.

Loan Packages

For the last few months, bankers have begun to work out even more ingenious ways of catering to their customers' desire to reduce their overall interest burden without taking on excessive exchange risks. The idea is a simple one: loan packages that combine a basic Eurodollar component at floating rates with a little cheap, long-term money, say, the mark or yen.

The long-term money is provided either in the form of bonds issued domestically or internationally or, recently, in the form of ordinary long-term domestic loans, of the kind that German and Japanese banks offer their own local customers. A few loan packages have re-

cently even included a bond and straight domestic loan component.

Japanese banks have been particularly active, encouraged by the Japanese Finance Ministry, which is hoping to reduce the country's embarrassing balance of payments surplus through capital exports. Bankers are enthusiastic, too, because they can refinance the fixed-rate yen loans relatively cheaply in the domestic market. In addition, the fatter margins that they are able to earn on them compensate in part for the rock-bottom margins obtainable on ordinary Eurodollar rollover credits.

For example, in September, a group of Japanese banks put together a package for the National Bank of Hungary that consisted of a \$100 million Eurodollar rollover credit, a 14 billion yen loan for 10 years and a 6 billion yen loan for 15 years.

In October, the Bulgarian Bank for Foreign Trade got a similar deal

in the shape of a \$90 million rollover loan for six years accompanied by a five-year 7.5 billion yen domestic loan.

To the same month, Australia got an all-yen financing package that consisted of a 40 billion yen 10-year loan at a fixed rate of just 7.1 percent and another 40 billion yen 20-year loan at a fixed rate of 7.6 percent.

Now, it is the turn of the Mexicans. They are being offered an interesting package of dollar and fixed rate yen financing.

German and Japanese banks have a monopoly on this kind of business. This is not only because their currencies are cheap and therefore in demand, but also because the capital structures in both countries are such that the banks can get matching funds domestically without too much trouble.

In Germany, the Landeshanks (state banks) are in a particularly strong position. They are allowed

to issue long-term bonds of their own to finance their lending business. Westdeutsche Landesbank (WestLB), which has expanded successfully abroad in the last few years, has some 30 billion DM in bond finance of its own for on-lending. Therefore it has been able to make the most of the situation when providing international clients with long-term mark loans.

In October, for example, WestLB put together an impressive package in the mark for Venezuela that included a straight 150 million DM, 12-year bond and a 12-year domestic currency loan for 250 million DM. A little earlier, WestLB led the German syndicate that provided Portugal with a package consisting of a \$150 million Eurodollar rollover credit and a 420 million DM, 10-year fixed-rate loan.

The big three German commercial banks (Deutsche Bank, Dresdner and Commerzbank) do not have the same ability to issue their own bonds domestically, and are, therefore, at a relative disadvantage.

But they, too, have been making medium-to-long term loans to foreign customers. They do so partly by on-lending domestic savings deposits and large-company deposits, although these seldom extend beyond five years and the banks are allowed only a limited amount of mismatching by the German banking authorities.

These banks are also making bond issues of their own in the Euromarkets. Deutsche Bank, for example, which has been quite active in making foreign loans this year through its Luxembourg subsidiary, raised 200 million DM for five years through a private placement in Luxembourg in April. It has just raised another 100 million DM in the same way.

The bank's most impressive deal was the spring package for Canada, in which it included an offer to make a private placement of a staggering 500 million DM of five-year bonds for the Canadians and took most of them onto its own books.

Deutsche Bank decided last month to sell a part of its holding in the secondary market in order to make room for more medium-term lending to other international borrowers. There is little doubt that these, as other types of multicurrency financing packages, are likely to get even more popular as banks and their customers learn to like them.

British Clearing Banks Expand into the United States

By Hamish McRae

LONDON (IHT) — The big British clearing banks — the clearing banks — have long taken a more restrained attitude to international business than either their merchant banking competitors or, naturally enough, those banks that London spawned to provide banking services to the empire. Just as the existence of merchant banks until recently inhibited their movement into merchant banking business, so the existence of specialist international banks inhibited their incursion into international banking.

But that is now history. During the last few years, the clearing banks have made a furious effort to catch up with their foreign (particularly U.S.) rivals and, if anything, the pace has heated up during the last 12 months.

The Big Four

There are two principal directions that the banks have taken in seeking to expand their business. For one, further efforts have been made to build up London-based Eurocurrency business. For the other, they have been working to establish a better international branch network, including retail activities in the United States.

Like all international banks, the clearing banks have been hit by the sharp narrowing of spreads on Eurocurrency business. But this has presented an opportunity for the banks that were prepared to continue lending at reduced spreads to increase market share. Midland Bank in particular seems to have made an effort to exploit this opportunity. It has chosen to do so by boosting the proportion of Eurocurrency business booked through the partner bank, rather than through Midland and International Bank Ltd. (MIBL), its affiliate consortium bank.

The desire to do international business "in house" is also evident at National Westminster, which has a 20-percent interest in Orion. While Barclays has long preferred to attack international business from its head office rather than through a partly owned subsidiary, Lloyd's, the other member of the Big Four, has recently been reorganized to give its main board only group responsibility, leaving domestic management to a separate management board — a move that was intended to enable it to carry out its international responsibilities unencumbered by domestic retail operations. This is a perfectly logical move, given the amount of board time international business

has been taking up. But it may also signal a further emphasis on the international side.

U.S. Drive

But the most exciting event of the last year has been the drive by the banks into the United States. Both Barclays and National Westminster are seeking major acquisitions, pending Federal Reserve approval. Barclays has won shareholder approval to take over American Credit Corp., a Charlotte, N.C., consumer finance group, while NatWest has negotiated to buy the 140-branch National Bank of North America. Although the NBNA deal was signed at the end of August, Federal Reserve permission is not expected before next year.

A further shadow hangs over the NatWest enterprise: New York state banking legislation under proposal could frustrate this.

But the fact that two of the four banks should be trying to expand in North America clearly indicates the potential seen there.

Two of the "British empire" banks, the London-based Standard Chartered and the Hong Kong-based Hong Kong and Shanghai Banking Corp., also have a strong

desire to build their U.S. bases. Standard was recently thwarted in its efforts to expand further in California, but Hong Kong plans to take a major interest in Marine Midland, if the deal gets official approval.

Rumors

There have been rumors in London that Midland would also expand in the United States. (At present, it is represented there by its tourist and traveler's check subsidiary, Thomas Cook, by insurance brokers Bland Payne and by a minority interest in European American Banking Corp. Midland's Chairman Lord Armstrong hinted in an interview that the bank would like to expand in the United States, possibly through some form of financial service other than banking.

All this activity tends to overshadow the expansion made elsewhere by the clearing banks as well as the modest efforts the merchant banks have been making outside London to strengthen their services. Perhaps the most interesting area of growth in merchant banking has been the advisory services to central banks on currency and portfolio management.

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Euromarkets

Penalty Fees Reappear as Number of Prepayments Rises

LONDON (IHT) — "In a fixed rate market, it would be suicidal not to have a penalty fee on prepaid loans. When Eurobanks lead on a floating-rate basis, there is much less pressure." This comment by a Chase Manhattan senior executive explains why, contrary to the prepayment clause, which is always present in syndicated Euroloan agreements, a penalty fee does not accompany every prepayment.

By imposing a penalty on prepayment, banks seek compensation either for a lack of return if the credit is prepaid and not refinanced, or for a lower yield if the transaction is restructured with conditions more favorable to the borrower.

However, penalty fees suddenly appear, then disappear, depending on the state of the market. They began to be abandoned in 1973, then tended to re-emerge in 1974 before vanishing from most loan agreements during the next three years. "It has not been in a single loan we have made since 1976," said Dryden Liddell of Chase.

Generally, it seems that the penalty fee falls into oblivion when the market is bullish, especially when it turns into a borrowers market. It is hard to give this phenomenon the force of a general law, but there is certainly a close relationship between the penalty fee and the market situation.

On the other hand, the avalanche of prepayments in 1978 had the effect of pushing banks into re-introducing the penalty fee. During the second half of this year, West German banks in particular tried to en-

force a penalty fee in all new loan agreements. Some banks were even reported to be asking for a management fee in cases of refinancing, a rather unprecedented demand.

When two parties agree on the penalty fee and it is included in the contractual document, it becomes a legal commitment and has to be paid in the case of premature repayment. The German law, however, does not make such a clause mandatory in every case. In fact, the German law sometimes makes it possible for the borrower not to pay the penalty fee, even if such a fee is stipulated in the loan agreement.

Under paragraph 247 of the German Civil Code, a debtor is entitled to prepay a loan when the rate of interest exceeds 6 percent. In such a case, the borrower is able to prepay the debt without any penalty fee. This has already happened with some Eurobond issues, which have been prepaid at par although the loan agreement stated that any prepayment should be made at a premium.

The same would occur with a syndicated loan carrying a floating rate of interest. A legal opinion, recently given by a German law firm in answer to a question put by a well-known Continental bank about an International Investment Bank (IIB) loan governed by German law, emphasized that "the banks may not be entitled to the repayment fee provided for in clause 5Q(1) of the loan agreement, should the borrower make use of the special right of premature repayment under paragraph

EXAMPLES OF LOANS CARRYING PENALTY FEES					
Borrower	Amount	Maturity	Spread	Signed	Penalty Fee
Banque Nationale d'Algerie	U.S. \$120m	7 years (3 years grace)	3 years @ 1 1/4% 4 years @ 1 1/2%	13.7.78	1/2 % for first 3 years; 1/4 % thereafter.
Banque Nationale d'Algerie	U.S. \$ 50m	7 years (3 years grace)	1 1/4 % above 6 mo. Libor	Oct. 78	3/4 % for first 3 years; 1/4 % for last 4 years.
Costa Rica	U.S. \$ 70m	10 years (4 years grace)	4 years @ 7/8 % 6 years @ 1 %	25.10.78	1/2 % for first 4 years.
Costa Rica	U.S. \$110m	10 years	4 years @ 7/8 % 6 years @ 1 %	25.10.78	1/2 % for first 4 years.
Kingdom of Denmark	U.S. \$1,235m	7 years (4 years grace)	3/4 %	To be signed 3.12.78	1/4 % of the amount prepaid multiplied by the number of years remaining to final maturity.
Istituto per la Ricostruzione Industriale (IRI)	U.S. \$500m	7 years (54 mo. grace)	7/8 %	30.10.78	Prepayments are permitted after 1 year of each drawdown with the following fees: 1/2 % during 2nd year; 3/4 % during 3rd year; 1 % during 4th year; 1 1/4 % during the remaining life-time.
International Investment Bank	U.S. \$500m	10 years (5 1/2 years grace)	2 1/2 years @ 7/8 % 7 1/2 years @ 1 %	8.9.78	1/4 % payable annually for the period remaining until the repayment is due under the agreement.
Societe Financiere pour les Telecommunications et l'Electronique (Lux) SA	U.S. \$ 35m	5 years (2 years grace)	1 1/4 %	20.1.77	0.20 % from drawdown to 1.1.1980; 0.10 % from 1.1.1980 to 1.1.1982; No penalty after 1.1.1982.
Correios e Telecomunicacoes de Portugal	U.S. \$ 50m	6 years (3 1/2 years grace)	1 1/2 %	18.4.78	

247 of the German Civil Code." The opinion added that "the fact that paragraph 247 of the German Civil Code has not been mentioned

in the loan agreement does, however, not affect the validity of the loan agreement." This aspect of German law, which is generally not

well known, could come as a shock to some Eurobankers involved in transactions falling under the Civil Code.

months after the relevant date: 3/8 percent during the second 12 months after the relevant date; 1/4 percent during the third 12 months after the relevant date and 1/8 percent during the remaining lifetime of the loan concerned."

No Fee

Sometimes, there is no penalty fee for the very last years of a loan since the parties consider that the loss of earnings for the lenders would be minimal in the case of prepayment. The loan agreement, for instance, of the Portuguese Correios e Telecomunicacoes de Portugal \$50 million 6-year credit signed on April 18, 1978, (agent: Kredietbank Luxembourg) anticipates that "the borrower will be entitled on any interest date to prepay the totality or any part of the loan with a premium of 0.20 percent from the effective date to Jan. 1, 1980; 0.10 percent from Jan. 1, 1980, to Jan. 1, 1982, and without any penalty after Jan. 1, 1982."

The penalty is generally a flat fee. Nevertheless, there are some exceptions. The Societe Financiere pour les Telecommunications et l'Electronique (Luxembourg) SA \$35 million 5-year loan guaranteed by the Italian state-owned STET, which was signed on Jan. 20, 1977, (agents: Banque Europeenne de Credit SA and Kredietbank NV) includes a penalty fee of 1/8 percent payable annually "for the period remaining until the repayment is due under the agreement."

Obviously, the degree of the penalty is inversely proportional to the credit worthiness of the borrower. The higher the prestige, the smaller the fee. It is even conceivable for a highly rated sovereign risk not to consent to the payment of the penalty fee. In the past, some governments have flatly refused to pay the management fee initially agreed with

the lead manager. This is a blackmail that happens when government concerned makes clear that any enforcement of a fee would result in an abrupt break in the relationship between the establishment and the dealer, this occurred with management fees, why not with penalty fees?

'Not the Point'

The general manager of a U.S. bank said that the "penalty" is not the point. The important thing would be no prepayment at all. Nevertheless, the huge refinancing that developed in it has now made international banks well aware of the necessity to protect their returns with prepayment clauses. Therefore, it can be reasonably assumed that Eurobanks will try more and more to include them in loan agreements.

It is already characteristic some refinancings arranged on basis of extremely low margins at the 5/8 percent level, and premiums for premature payments. This is an indication that international banks are trying to embed the penalty fee in any agreement, as is already the case with prepayments.

Of course, the international banks will resist this trend, particularly as long as the market continues to be in the borrowers' favor. But will be difficult for them to resist the universal will of Eurobankers, who are now pressing for a common front. Furthermore, the penalty fee can be proposed as a bargaining factor for lower margins or other advantages. The possibility of canceling the prepayment clause in agreements is a corollary to an unavoidable inclusion of the penalty fee.

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'Topping Up' the Margins

PARIS (IHT) — While bankers have been growing about the narrowing of margins on syndicated Eurocurrency bank loans, this has not stopped them from participating in low-margin loans — a result of their own abundant liquidity, the pressure from competitor banks and a desire either to establish or maintain close, friendly relations with particular borrowers.

The borrowers have a lot at stake in driving down the amount over the London interbank offered rate (Libor) they pay on loans: it means a very real reduction in their costs and, less tangibly, a rise in national prestige. But contrary to the general impression, the spread on a widely syndicated loan does not serve as the rate for a borrower, but rather as a benchmark for the smaller, nonsyndicated suppliers' credits banks are called on to finance.

Bankers prefer not to discuss such "topping-up" of margins but admit it is practiced by almost all Western European banks. And while they insist this does not extend to loans syndicated among a large number of international banks, something quite like it was used to salvage the \$1 billion jumbo loan put together for Nigeria.

"It happens from time to time, but only in connection with export financing," a West German banker says. "The supplier is anxious to win an export contract and must

arrange the financing. But the banks may have little interest in going along — either they are full up with loans to the importing country, or the conditions are too unattractive. So the supplier has to induce the banks to do the deal."

The inducement generally ranges from an eighth to a quarter of a percentage point over the margin on syndicated loans for the same borrower. The inducement is financed by the supplier through increasing his export price or, if the competition for the contract is too great and that is not possible, a cut in his own profit margin.

"It happens," says a U.S. banker, "because a supplier really understands that the banks can't lend at those rates and he wants the business and is agreeable to do it." In the case of Nigeria, however, it was the borrower who stepped up to induce a group of West German banks to participate in the jumbo loan. A target of \$1 billion was originally set with a margin of one percentage point over Libor for the first four years and 1 1/4 for the final four years. The terms were tight and the German banks, which had already committed 750 million Deutsche marks (for seven years at 1 1/4 over Libor) to finance a Nigerian project being supplied by West German firms, refused to participate — fearing that when the time came for Nigeria to pay for the West German exports, the money

would have already been spent on other things.

The Nigerians then began speculating a \$750 million loan was still trying to talk the German banks into the loan and at the finally succeeded, lifting the loan amount to \$1.1 billion.

But to get the Germans to commit their DM 750 million (the \$350 million) to the jumbo loan, the Nigerians agreed to those banks a front-end cash reportedly equal to an additional 1/16 percent on the margin, a guarantee that those funds are used for the specified project.

Other banks participating in jumbo say they are aware the German banks got something out of this. "They insist they do not know much," the official explanation is that this compensates the German banks for "the additional cost they incurred prior to joining the jumbo loan. For their part, the German banks explain that this is only a different loan operation and has been placed under the umbrella of the jumbo just to please the Nigerians."

"One should not talk too much about this," counsels a French banker. "It may lead to conclusions... that the banks are playing dirty tricks to obtain advantages over other banks. It's a very touchy point."

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Euromarkets

Prepayment, With or Without Clause, Is Plaguing Bankers

(Continued from Page 7)

possibility for early redemption by borrowers on their Euroloans is so deeply embedded in the history of the Euromarket that there is little chance that the prepayment clause will be dropped from syndicated Euroloan agreements.

For historical reasons, Euroloan agreements follow standard U.S. documentation. When the Euromarket for loans carrying floating rates for interest started to develop during the early 1960s, U.S. standards were adopted because U.S. banks rapidly became the most involved in this field. In the United States, only private placements do not allow prepayments because pension funds, which are among the main institutions absorbing this paper, seek long-term investments and consequently do not want their policy to be disturbed by early redemptions.

Paragraph 247

The West Germans are more favorable to borrowers than anyone else. According to paragraph 247 of the German Civil Code, any borrower has the right to prepay a loan if the rate of interest is more than 6 percent. A German legal opinion, in connection with an International Investment Bank loan agreement governed by German law, underlines this point and adds that, under paragraph 247, "the borrower, after a period of six months, is entitled to repay the loan upon notice of not less than six months. This right of premature repayment cannot be waived or restricted." The 6-percent rule also applies to loans based on floating rates as well as to those carrying fixed interest.

Although banks have to accept prepayment clauses in syndicated Euroloan agreements, there is a point on which they are not prepared to bargain: the period of notice a borrower must give prior to repayment. This is because bankers have to protect their funding. Generally, agreements stipulate a notice period of 30 days. On the other hand, there is no specific rule concerning the point at which a loan can be prepaid, except that the prepayment must coincide with an interest payment date.

The imperative notice period and the flexibility of the prepayment date can be seen in the following examples:

The agreement for the \$35 million 5-year loan for the Italian Societa Finanziaria per les Telecom-

munications et l'Electronique (Luxembourg) SA mentioned that "after the first anniversary of the date of drawdown, on giving 30 days' prior notice to the agent (Banque Europeenne de Credit SA), the borrower may prepay in whole or in part the outstanding amount at the end of any relevant interest period."

The Ruler of Dubai \$200 million 3-year credit signed on Aug. 13, 1977, with Banque Arabe et Internationale d'Investissement acting as the agent, stipulated that the borrower "shall be entitled on any interest payment date after the end of the drawdown period on giving to the agent not less than 30 days' written notice, which shall be irrevocable and effective only upon receipt, to prepay the loan without penalty in whole or in part together with interest on the amount prepaid to the date of prepayment."

The International Investment Bank \$500 million 10-year loan (agent: Dresdner Bank AG) signed on Sept. 8, 1978, anticipates that "on giving not less than 30 days'

prior written notice to the agent, which shall promptly give written notice thereof to each of the banks, the borrower may prepay the loan on any interest date but not earlier than 12 months after the date of drawdown."

The \$1 billion 7-year loan signed on March 1, 1977, by the Kingdom of Sweden, which has since been refinanced, underlines that "the borrower may prepay any advance in whole or in part on any relative interest payment date provided that the agent (Morgan Guaranty Trust Co. of New York) shall have received from the borrower not less than 30 days' written notice of its intention to make such prepayment, specifying the advance to be prepaid in whole or in part. Notice of intended prepayment once having been given by the borrower, it shall be obligatory for the borrower to make the prepayment in accordance with the notice."

The Correios e Telecomunicacoes de Portugal \$50 million 6-year fund-raising exercise signed on

SIGNIFICANT REFINANCINGS IN THE FIRST 10 MONTHS OF 1978 FOLLOWING PREPAYMENTS

Borrower	Amount	Maturity	Spread	Comment	Borrower	Amount	Maturity	Spread	Comment
Affias Consolidated Mining & Development Corp. (Philippines)	\$ 80m	8 yrs	1 1/4 %	Refinancing of 1976 credit floated at 2 % over Libor.	Ecuador	\$500m	10 yrs (42 mo. grace)	3 1/2 yrs @ 1/2 %; 6 1/2 yrs @ 1 %	This is a partial refinancing of a \$200m credit signed Aug. 10, 1977 — 6 yrs @ 1 1/2 %.
Central Bank of Iraq	\$180m	3 yrs	1/2 %	The loan is to partly refinance the \$500m credit signed on Aug. 8, 1975, raised on the basis of a margin of 1 1/2 % over 5 yrs, only \$200m of which has been drawn down.	Instituto Mobiliare Italiano	\$100m	8 yrs	1 1/4 %	Refinancing of the undrawn portion of a \$100m credit (6 yrs @ 1 1/2 %) signed in August, 1977.
Companhia de Acelo del Pacifico (Chile)	\$100m	8 yrs	1 1/4 %	The credit will be used partly to refinance CAP's foreign debts.	Jordan Petroleum Refining Co.	\$ 70m	7 yrs (3 yrs grace)	1 1/4 %	To refinance a \$1bn 7-yr credit signed on March 1, 1977, at 1/2 % for first 4 yrs, then 1 %.
Costa Rica	\$ 70m	10 yrs (4 yrs grace)	4 yrs @ 1/2 %; 6 yrs @ 1 %	\$50m of this credit is to refinance former loan of the same amount.	Kingdom of Sweden	\$ 1bn	10 1/2 yrs	1/2 %	Part of the credit is to refinance outstanding portion of \$200m syndicated loan.
Dominion of Canada	\$2.5bn	8 yrs	1/2 %	This is a refinancing of a loan arranged last autumn for \$1.5bn and increased in April, 1978, to \$2.5bn. Previous conditions: 1/2 % for 3 yrs and 3/4 % for 4 yrs.	Montreal Urban Community	\$250m	10 yrs (3 yrs grace)	1/2 %	To refinance part of \$210m 2-branch loan.
Kingdom of Denmark	DM400m	7 yrs (4 yrs grace)	1/2 %	To refinance a DM400m credit signed on Feb. 16, 1977, at 1 1/4 % for first 3 yrs and 1 1/2 % for the last 4 yrs.	Nacional Financiera (Mexico)	\$176.5m	3 yrs (bullet)	1/2 %	To refinance a similar amount raised in 1976 with a spread of 1 1/4 % over 7 years.
Kingdom of Denmark	\$1,235m	7 yrs (4 yrs grace)	1/2 %	The loan is to refinance 4 credits, the outstanding portion of which was \$1,235m.	Rafiner (Norway)	\$ 85m	10 yrs	2 yrs @ 1/2 %; 8 yrs @ 1/2 %	The loan is to partly refinance a \$ 60m deal signed on Aug. 6, 1975 — 7 yrs @ 1 1/2 %.
				Conditions: 1. \$300m over 7 yrs @ 1 1/2-1 1/4 (Dec. 1975) 2. \$200m over 7 yrs @ 1 1/2-1 1/4 (May 1976) 3. \$400m over 5 yrs @ 1 1/2 (Dec. 1976) 4. \$500m over 7 yrs @ 1 1/2-1 1/4 (July 1977).	Regie des Installations Olympiques (Canada)	\$360m	10 yrs	2 yrs @ 1/2 %; over U.S. prime rate; 8 yrs @ 1/2 % over U.S. prime rate	Refinancing of 7-yr credit arranged in 1974.
					RENFE (Spain)	\$ 46m	10 yrs	5 yrs @ 1/2 %; 5 yrs @ 1/2 %	Refinancing of 1977 credit — 5 yrs @ 1 1/2 %.
					Shell Petroleum Ltd.	\$400m	10 yrs	4 yrs @ 1/2 %; 6 yrs @ 1/2 %	Refinancing of \$67m 7-yr credit, signed Oct. 20, 1975, at a spread of 1 1/2 %.
					Societe Financiere pour les Telecommunications et l'Electronique (Lux) SA (Italy)	\$ 35m	5 yrs	1/2 %	
					TVO (Finland)	\$ 67m	10 yrs	1/2 %	

April 18, 1978, with Kredietbank SA Luxembourg as the agent, states that "on any interest date, the borrower shall be entitled to prepay all or any part of the loan in the Eurocurrency in which it is then outstanding, upon giving the agent not less than 30 days' notice of the

aggregate principal dollar amount then to be prepaid."

Loan agreements allow borrowers to prepay their credits either totally or partially. In the first case, the procedure is easy. It is, however, a more delicate process if only a part of the loan is prepaid. Gen-

erally, the agreement states that any amount prepaid shall be applied towards the borrower's repayment obligations in inverse order of maturity.

Borrowers do not always pay too much attention to this clause, the effect of which is to shorten the

maturity of the loan. Banks, however, prefer it this way since by avoiding prepayments being spread in a disorderly fashion, the procedure is less complicated. In addition, borrowers are usually asked to prepay in minimum amounts similar to those drawn. Prepayments are al-

ways made in the same currency in which the funds are initially drawn. Two other elements generally accompany prepayment clauses.

First, the agreement states that the prepaid term loan cannot be re-borrowed. This is also to protect the banks' funding. If the prepayment or any prepaid portion of it could be re-borrowed, the operation would become a standby credit. In such a case, a borrower would be able to prepay and to re-borrow on the condition that the commitment fee is paid each time the amount repaid is re-borrowed.

Second, agreements concerning loans backed by the guarantee of a sovereign entity usually mention that the borrower must produce evidence that he has received an official consent to prepay.

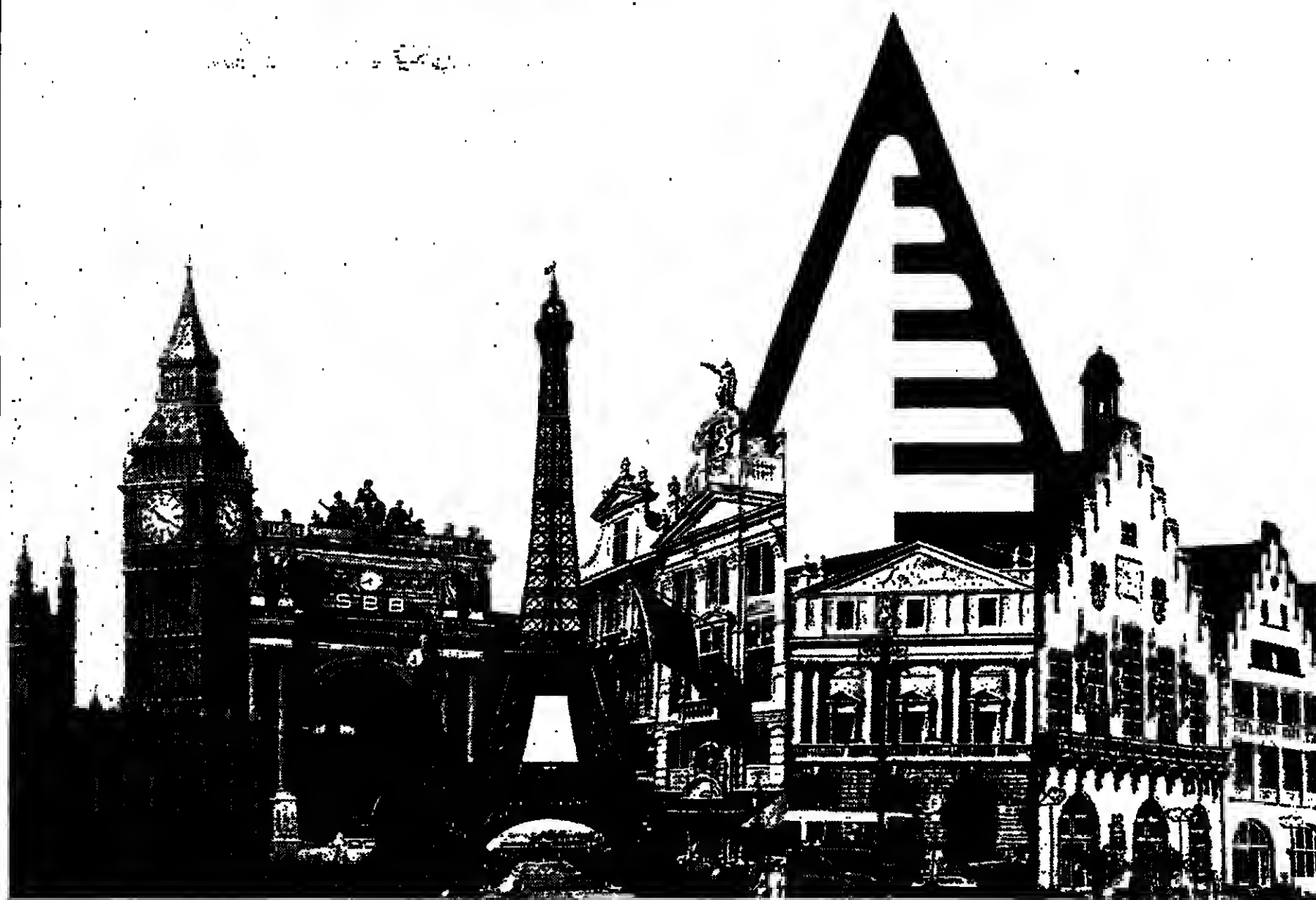
The syndicated Euroloan market is likely to face a continued avalanche of prepayments for some time to come — at least for those borrowers paying spreads above the 3/4 to 7/8 percent level. This trend will push banks into taking special care with prepayment clauses, although they are already well formulated.

But borrowers could well begin to pay much more attention to this matter when margins start to rise again. Indeed, lenders are aware of the advantages they can obtain from loan agreements allowing them to prepay their debts.

In order to get the best of market conditions, international lenders will seek agreements with prepayment clauses constructed more and more in their favor. Therefore, Euroloans will not only have to face prepayments, but also clauses permitting borrowers to prepay on their own terms.

—C.H.

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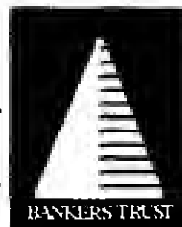
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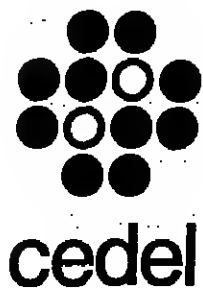
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Euromarkets

More and More Banks Are Setting Up Shop in Luxembourg

By Darrell Delamaide

LUXEMBOURG (IHT) — The growth in Luxembourg's Euromarket activity has outpaced the expectations of government officials charged with monitoring banking activity in the grand duchy.

Banking Commissioner Pierre Jaans said that balance-sheet volume of the 94 banks active in Luxembourg reached 2.37 billion Luxembourg francs (\$81 billion) by the end of August, a gain of nearly 26 percent from a year ago.

"I was expecting growth more on the order of 15-20 percent," commented Mr. Jaans. A big reason for the growth: More and more banks are setting up shop in Luxembourg. There were 94 active by midyear compared with 90 at the beginning of the year. Altogether, seven or eight new banks probably will open shop in 1978, Mr. Jaans said, and the number of active banks is likely to top 100 within six months.

"There has been no abatement in interest," remarked the banking official. Mr. Jaans is cautious about naming prospective candidates, saying only that most banks negotiating a Luxembourg subsidiary are of European origin.

Rumors circulating in the banking community, however, also mention American banks. Luxembourg Finance Minister Jacques Poes reportedly told a group of German bankers that some American bankers had expressed renewed interest in a Luxembourg unit during the International Monetary Fund meeting in Washington. Names mentioned among bankers here are Morgan Guaranty and Manufacturers Hanover.

Interest is high because new U.S. banks would mark a change in the recent trend for Americans to curtail their Luxembourg activities. The U.S. banks would be welcome to increase the dollar component in Luxembourg business, which makes up only 45 percent of volume here against 77 percent in the Euromarket as a whole.

Deutsche Mark

Of course, the interest in Luxembourg for American banks is the high turnover in the Deutsche mark, which makes up 47 percent of the business volume among banks here. This is also the apparent lure for a British bank (Barclay's is the name most often heard) reportedly considering a

move here. And it seems to have played a role in attracting the Bank of China.

The announcement last summer that the Bank of China intended to open a branch in Luxembourg is seen as part of that country's opening to the West. The preliminary soundings have been on a diplomatic level and technical details have yet to be worked out. Mr. Jaans, however, leaves no doubt that the Chinese presence would be welcome. "It would be quite an asset to have the Bank of China here in Luxembourg," he comments.

Not so welcome, though, is the application of the Danish bank Finansbanken. For reasons Mr. Jaans declined to discuss, the Danish institute was denied a commercial license. One of the unwritten rules in Luxembourg is that the banking commissioner determines in conference with applicants whether it would be suitable for the bank to be established and then makes a recommendation regarding the commercial license — which is invariably followed.

Finansbanken now is taking its case to court. Mr. Jaans says he is indifferent to the outcome of the case. If Finansbanken wins, the unwritten rule would quickly be written and passed into law because the government policy implemented by Mr. Jaans is that banks coming to Luxembourg should be intent on doing serious banking business.

A System

In general, however, Mr. Jaans said he is pleased with the development of Luxembourg banking. "What was a gathering of banks is evolving into something that looks more like a system," he commented.

Indeed, Luxembourg banks this year have demonstrated increasing muscle by managing and syndicating sizable Eurocredits exclusively among Luxembourg institutions. Many are never publicized. One public loan in May, an eight-year credit of 400 million DM to Denmark, was practically a pure Luxembourg syndication. A 500 million DM credit to the United Mexican States announced in October was exclusively syndicated in Luxembourg.

Bankers here do not see Luxembourg syndications as a trend so much as a demonstration of the grand duchy's capacity as a financial center.

There is less of a consensus about the so-called "Luxibor" — the Luxembourg interbank offered rate named after London's Libor (London interbank offered rate), the standard peg for medium-term credits in the Euromarket. First introduced with a 100 million DM credit to the Foreign Trade Bank of Bulgaria, managed by a Luxembourg newcomer, Badische Kommünale Landesbank International, the Luxibor has had a fitful existence as a credit peg. The originators reason that because Luxembourg is a major center for Euromarket trading, it makes sense to peg Euromarket credits to the bank rate here.

Older and bigger German subsidiaries, though, do not think much of Luxibor. Volker Burghagen, managing director of the Dresdner bank subsidiary, says it is pointless to speak of a Luxibor, just as it is to fixate on a Libor. "There is a bank rate, and geography doesn't play a role," he says, conceding that one or another center must be settled on for practical purposes.

Government officials look at Luxibor with a bemused tolerance. "It's an amusing gadget," remarks Mr. Jaans. Another German banker is more cautious, however. "Luxibor might be harmless enough in fair-weather times," he notes, "but some borrowers might be surprised to find themselves paying a higher rate than necessary if liquidity dries up and a thinner Luxembourg market pushes rates up."

But Luxembourg is firmly entrenched as the most active Euromarket center after London. It handles about 12 percent of overall Euromarket volume, against London's 42 percent, but accounts for around one-fourth of credits to the non-banking sector (measured against the eight European countries monitored by the Bank for International Settlements.) The depth is of course greater in Euromarket activity, where Luxembourg has a nearly one-third share (as of end-1977.)

In fact, despite the rumor of new arrivals, German banking subsidiaries are certain to remain the predominant factor in Luxembourg.

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All four of the new banks established in the first half of the year were of German origin. Much of the growth in banking activity clearly was a result of these new institutes transferring part of the money market and credit business to Luxembourg from the parent banks.

Another strong boost came from a pickup in credit demand by German companies, which accounts for loosely one-third of German bank activity in Luxembourg. The German banking units here, in turn, handle at least half of the grand duchy's Eurobanking business.

Most telling, the five biggest banks in Luxembourg are the subsidiaries of Dresdner, Deutsche Bank, Commerzbank, Westdeutsche Landesbank and Bayerische Landesbank. Only in sixth place does the largest domestic bank appear, the Caisse d'Epargne de l'Etat-Banque de l'Etat.

Concern

The size of the German operation in Luxembourg has given rise to some much-publicized concern

on the part of banking supervisors in West Germany. This legitimate concern ran into the delicate issue of Luxembourg sovereignty and the not-so-delicate resistance of bankers, who do not like to disclose any more than necessary.

With the Berlin banking authority claiming it only wanted a better picture of what worldwide risks the German banks were exposing themselves to, and the banks cooed that they of course had nothing to hide in Luxembourg or anywhere else, a compromise was reached, yielding the typical German gentlemen's agreement.

This one, however, goes beyond a handshake. A text is being circulated among German banks specifying what information the banks should supply and soliciting their agreement. Once the agreement is "ratified" by the banks, the accounts will be directed to compile tables showing the geographic spread, the volume and maturities of both assets and liabilities — al-

though the chief source of concern is the asset side.

Especially large individual risks can even be described in greater detail, disguising the borrowers to protect bank secrecy.

Bank secrecy, of course, was the main concern of Luxembourg officials, confident that their own supervisory mechanism is adequately monitoring bank activity in the grand duchy. But the compromise now hammered out, involving global figures and revealing no customer names, meets with no objection from Luxembourg. So far as it goes, these officials have maintained from the beginning, the main disagreement is between the German banks and their regulatory authorities.

Next Step

German bankers are still a bit uneasy, not because of the agreement itself but for fear of what the next step might be. They already are making cautious statements to ward off any attempts to seek greater detail than agreed to in the compromise or to introduce stiffer regulation as a result of the information provided.

For his part, Mr. Jaans notes that the agreement reached with the Germans with so much hullabaloo is similar to a quiet accord long since worked out with the Nordic countries, which traditionally have a much closer (and more discreet) relationship with their domestic banks. The Luxembourg official attributes the publicity accompanying the German agreement to national temperament.

German banks in Luxembourg were part of another temperamental uproar just last month. Again it involved a gentlemen's agreement. This breakdown concerned the placement of Deutsche mark notes on behalf of Deutsche Bank and Commerzbank's Luxembourg units in the Euromarket. This is not unprecedented and the amounts involved, 100 million DM in each case, would hardly be enough to choke the market in normal circumstances.

The private placements, however, coincided with Deutsche Bank's decision to unload Canadian notes in the amount of 500 million DM, placements bearing a 5 percent coupon that it had been carrying on its own books since May. The sticking point was that this

flood of high-quality, short-maturity paper crowded some less attractive offerings from Algeria and Argentina out of the market. In fact, the whole market began suffering from indigestion — the type which the German Eurobond subcommittee, set up by gentlemen's agreement in 1968, is supposed to help stall by regulating the flow of new mark issues.

Self-Regulation

The problem is that issues from subsidiaries of the German banks, like those from supranational borrowers, are not subject to this self-regulation. As for the Canadian placement, Deutsche Bank reasoned that since it was not a new issue, but rather a secondary placement of paper duly approved last May it also did not come under the regulatory competence of the subcommittee.

Such sophistry angered the remaining banks. The 700 million DM of exceptions to the rule nearly equaled the 850 million DM approved according to the rules. While keeping within the letter of the gentlemen's agreement, Deutsche Bank, its critics charged, circumvented the whole purpose of the accord in a very ungentlemanly way.

A new consensus was apparently hammered out at a vigorous subcommittee meeting. It was agreed that large, market-affecting placements should be cleared with the subcommittee, even if it does not require approval under the rules.

For its part, Deutsche Bank refused to concede that the Canadian placement changed the market trend. Regarding the Luxembourg issue, the bank largely pleaded that it could not know its offering would be followed so closely with a me-too placement (referring to the Commerzbank notes).

Somewhat obscured in the whole row is the development of an attractive refinancing instrument for the Luxembourg units. Deutsche Bank had used this method before — first with a 10-year dollar bond with warrants last year and earlier this year with a five-year DM note bearing 4 1/2 percent. The recent placements indicate that the idea is catching on and may provide the market with a steady source of high-quality, short-term market paper.

China Fever Has Reached a New Pitch

FRANKFURT (IHT) — China fever has been agitating businessmen and bankers around the world all year, but this autumn it has reached a new pitch. China's declared intention to rapidly industrialize — a self-styled economic "long march" — has boosted stock prices in Tokyo, Frankfurt and even Milan as streams of industrialists and bankers have poured into Peking for their slice of the cake.

High Credit Rating

For the hard core of China experts in business it is a dream come true. But despite its magnitude, the new opening was hardly unexpected. The feeling among Western businessmen has been that sooner or later Chinese industrialization was inevitable.

China favors the non-superpowers as partners in its ambitious plans to erect 120 major industrial plants by 1985. The Japanese, because of geographic and cultural ties as well as the potency of their economy, have a decided edge. It was the 520 billion Sino-Japanese trade pact in February that first infected the world with China fever.

But the West German export machinery also cranked up and churned out a couple of jumbo po-

tential orders in September and October; a \$4 billion project to streamline Chinese coal mining and a \$15 billion steelworks. The Chinese are seeking capital goods in those areas where the Germans are unsurpassed and are dealing with a well-oiled export mechanism that can put a complete package, including financing, on the table.

Bankers are pleased with China's ideological about-face on the question of foreign credits, along with the turnaround in countenancing export of natural resources, which is the main security for any credit. But the first reaction among European bankers was that initial financing would be tied to specific projects. While China's credit rating is unquestionably high — a virgin borrower with vast resources — it will take some time to sort through political, economic and monetary considerations to correctly position China in the international credit market.

Symptomatic was the difficulty encountered in Peking in October by Dresdner Bank chief executive

Hans Friedrichs in discussions concerning possible financing for the proposed German bid on the steelworks. The Chinese, it seems, have a predilection for dollar credits, while the huge amount of financing involved — up to DM 28 billion — means the German banks will have to rely on Bonn's export credit guarantees in order not to exceed legal restrictions on lending to single customers. These guarantees, of course, are provided only for Deutsche mark credits. However, Germans are hoping that the Chinese will change one more idea and accept mark credits.

The Japanese are in a similar situation. Their normal export financing, through the Export-Import Bank, for example, is geared exclusively in yen. Dollar credits up until now have come from the banks, but they must be refinanced on the open market. Flexible as the Japanese are with margins, not even they can deliver the 7.5-percent rate desired by the Chinese given the present dollar interest rates.

The British export system already makes provision for dollar credits, and the Italians reportedly

are willing to provide the Chinese with a dollar credit. But the heavy industrial plants sought by the Chinese often cannot be had from Britain or Italy. German bankers and industrialists, who have faced similar problems before with Latin America and the Soviet Union, have to rely on the competitive edge of their products, technology, service and reliability to force the Chinese to accept at least some Deutsche mark exposure in their debt.

The rumors and speculation are bound to continue as the international banks work with the Chinese and their home governments to resolve the problem. In any case, said one well-informed banker, at least through mid-November no mandate had been given for financing in any currency.

It is obvious that the enormous financial needs of the Chinese expansion will be financed at least in part through the international markets. As an official of the Dresdner Bank unit in Luxembourg remarked, "In two years, China will be a major new Euromarket partner."

—D.D.

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Euromarkets

Brazil's Borrowing Heads for a Record

By Kerry Fraser

SAO PAULO (IHT) — Brazil's total international borrowing this year is heading for a record of nearly \$12.8 billion. After this proof of effectiveness, the country's strategy in foreign financial markets is unlikely to be altered significantly in the near future, although the government has just announced some important policy changes.

The presidency will change hands March 15, 1979, however, and bankers both here and abroad are uncertain about the way the new man, Gen. Joao Batista Figueiredo, will handle Brazil's intractable foreign debt problems and its approach to the international banking community.

Gen. Figueiredo has some room to maneuver. The present administration, led by Finance Minister Mario Henrique Simonsen, has taken advantage of favorable market conditions to build up reserves — Mr. Simonsen estimates an increase from \$7.3 billion at the end of last year to "something more than \$10 billion" at the end of 1978 — and to improve the debt profile by stretching out terms to as much as 15 years with five-year grace periods. International bankers give him full marks for his effort, but he will still leave Brazil heavily dependent on foreign borrowing.

However, the government has just made clear that reserves will not be allowed to increase. Left unclear is whether it will attempt to maintain the present reserve level.

Borrowing

Brazil will have to borrow approximately \$9.9 billion in 1979 to keep reserves constant and to cover the difference between inflows and outflows in the balance of payments. On the inflow side, direct investment should contribute about \$1 billion as it has since 1974, but the commercial balance (exports less imports) is not going to help much. Mr. Simonsen is looking for a \$700 million surplus for next year, bringing total inflows to \$1.7 billion.

Outflows (services plus amortizations) will be close to \$11.6 billion. Amortizations in 1979 will run to \$5.4 billion, up from \$3.8 billion this year, according to the central bank, and the deficit in services, which includes interest on the foreign debt, will continue to grow at least as quickly as it has in the past. In 1975 the deficit was \$3 billion,

... with the policy of generally going after project financing work as well as it has, the country is unlikely to opt for jumbo loans.

Possible Changes

The foreign debt, according to Mr. Simonsen's estimations, will grow 25 percent to \$40 billion this year, and interest payments will be at least \$4 billion in 1979, depending on the performance of the London interbank offered rate (Libor). In 1977, when the debt at the beginning of the year stood at \$25.9 billion, interest cost Brazil \$2.5 billion, almost 10 percent of the debt when the Libor was much lower than it will be next year.

How might President-Elect Figueiredo change Brazil's borrowing strategy given the needs for next year? Some of the possibilities being considered by bankers here include running down reserves rather than adding so much to the debt; pushing borrowers to prepay or renegotiate; and exerting greater control over new borrowing. Market strategy could give greater emphasis to bond issues, but with the policy of generally going after project financing working as well as it has, the country is unlikely to opt for jumbo loans in spite of the wishes of some European bankers.

Tentative moves have already been made in some of these directions. Acominas, the state-owned steel mill, is renegotiating its \$305 million loan with syndication leader Morgan Grenfell, and Eletrobras, the state-owned holding com-

pany for electrical generation, is renegotiating a \$250 million loan.

There has been little response, however, because Brazilian bankers realize it would be unpopular, and beyond that, they themselves would save little. "You always have to deal with the same banks, and everyone remembers '73 and '74," says Horst Tiedemann, international director of the Banco Auxiliar, a medium-sized Brazilian bank with a very active exchange division.

"If they start renegotiating, the next time things get tough we probably wouldn't lend to them," declares one of the representatives of a large U.S. bank.

The Nice Guys

"Brazil wants to be considered one of the nice guys," says the representative of a Canadian bank. "They agreed to these terms and they'll stick to them. It's politically expedient. The Brazilians are going to need us for a long time." He does not expect anything to happen unless the international banks, competing for business, start offering to replace the loans made by other banks a couple of years ago with new ones at better rates. This, he thinks, is exactly what the central bank is waiting for.

The government has just increased controls on borrowing abroad. Up to now, the government had insisted that incoming loans be left on deposit with the central bank for up to 150 days in order to postpone the impact on the money supply. The government has just announced that the 150-day freeze on loans would remain in effect, but instead of being disbursed immediately the cash would be made

available in three installments during the following 60 days.

At the same time, the government has boosted from five to eight years the minimum term for foreign loans to the private and public sectors.

State-owned companies will have a limit on their borrowings. They will continue to line up for central bank approval of their loan requests, and the bank will control total borrowing in the public sector in conjunction with balance of payments needs.

Some European bankers complain that their portfolios are getting stuffed with Brazilian paper, and they would prefer fewer but larger jumbo loans from Brazil. However, they run counter to interests of British, West German and U.S. bankers with a Brazilian presence who much prefer project loans that generate lucrative spin-off business and are frequently over-subscribed. A. W. Clauson, president and chief executive officer of Bank of America, one of Brazil's largest creditors, says, "We prefer to loan to a project," and he would not be pleased to see jumbo loans.

Umbrella Approach

Mr. Clauson suggests that only banks incapable of analyzing Brazilian projects, or merchant banks that earn their profits by organizing rather than by making loans, would prefer the umbrella approach. Given the attitude of bankers with a strong voice in Brazil and the success of the existing strategy, there is little chance of a change.

However, with the government's new restrictions on foreign loans, there may be an increase in bond issues. Bonds will not be limited the way loans will be, so the market may see a substantial increase in such issues next year. Mr. Simonsen has hinted he would like to see this.

This year, according to Paulo Lira, president of the central bank, Brazil will raise the equivalent of \$1 billion in bonds. Earlier, he had forecast \$750 million would be raised this year, about the same as in 1977. Donald Pearson, Midland Bank representative in Brazil, points out that the country has gained broad experience in different markets — Swiss franc, yen, Deutsche mark, dollar and even Kuwaiti dinar. With this knowledge, Brazilians are ready to go with an alternative if they need it.



Rembrandt 'Self-portrait' (1631), Rijksmuseum, Amsterdam

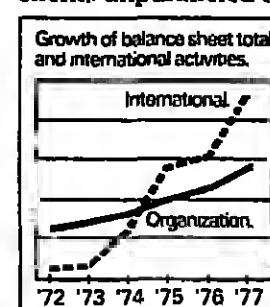
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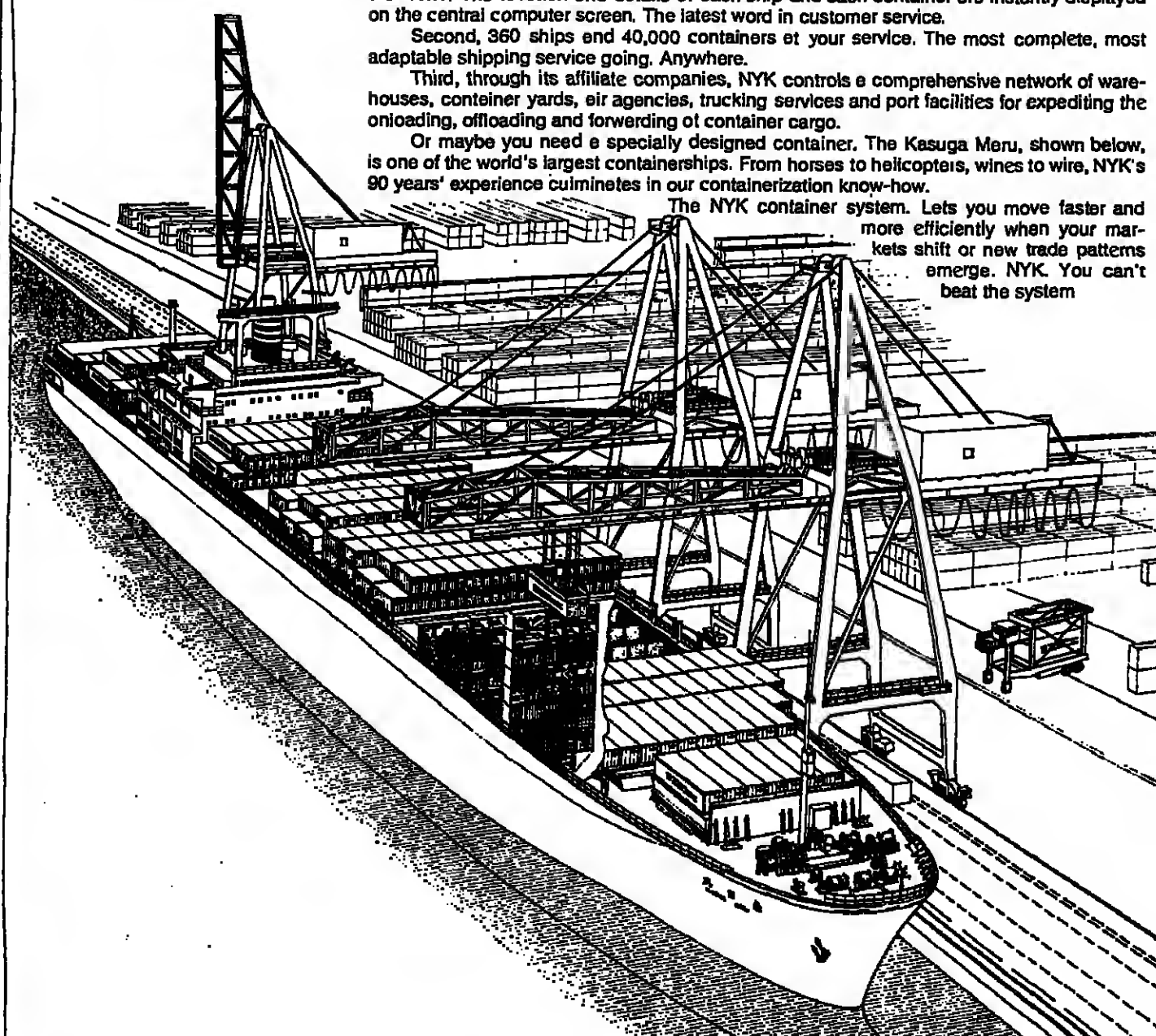
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Euromarkets

Lending to Comecon Limited by Low Spreads, Not High Risk

By Alan Tillier

LONDON (IHT) — Lending to Comecon countries is still regarded as a good risk by major banks in the United States, Western Europe and Japan, despite opposition to the increasingly favorable terms being demanded by the Communist borrowers. The U.S. banks in particular are tending to hold off until the various state banks in Eastern Europe agree to more profitable long-term arrangements. For the moment, however, European and Japanese banks see things differently and are continuing to lend.

Not surprisingly, the Communist borrowers are trying to benefit from a situation of high liquidity that has driven down spreads — the rates borrowers pay on loans over and above Libor (London interbank offered rate).

Cheap rates are one thing. Another is the ability to raise large sums of money in a quick, orderly manner. Western bankers, including the Europeans, do not like these spreads falling towards the 1/2 percent level. They would like a rate of at least 3/4 percent over Libor. This would improve their commissions and make Comecon's borrowing easier. Comecon borrowers at the moment are obtaining spreads of 5/8 percent for the initial couple of years, followed by 3/4 percent for the remainder of the customary 7-year tenure.

It is the low level of spreads rather than the long-term ability of the Communists to repay their \$50 billion of gross outstanding debts (to banks and government credit organizations) that is preoccupying many bankers as they look towards Comecon borrowing requirements in 1979. Already, it looks as if 1978 will end with total Comecon borrowing standing at around \$3 billion, compared with \$5-to-\$6 billion last year, a roughly equal amount in 1976 and some \$8 billion in 1975, the record year.

An important factor is the neces-

sity of the Comecon countries to cut back on imports from the West in order to conserve their hard currency. Lower imports of goods or plant mean fewer loans. Nevertheless, there are sufficient priority programs underway to make borrowing in the West a continuing fact of life.

Overall, efforts by the Comecon countries to bring their hard currency trade into balance have resulted in a \$6 billion reduction of

the trade deficit during the past two years — \$2 billion in 1976 and about \$4 billion last year.

Total debt figures based upon statistics of the Bank for International Settlements in Basel are rising, but the rate of borrowing this year is certainly slowing. The BIS has expanded its coverage of Western bank positions by including data on banks in Austria, Denmark and Ireland. In addition, banks in some of the reporting countries

now also supply information on other assets — besides loans — such as supplier credits, commercial bills and acceptances.

Based on this expanded coverage, the Comecon countries' net debt to the Western banking system was \$4.8 billion higher at the end of December, 1977, than previously reported. Their liabilities to the banks went up by \$3.42 billion to \$38.3 billion, and their deposits

with the banks showed a \$587 million increase to \$8.3 billion.

During the first quarter of this year Comecon countries' deposits with the banks declined by \$343 million to \$7.97 billion, while their liabilities increased by \$1.9 billion to \$40.2 billion. Their borrowings on the Eurocurrency market accounted for 67 percent of their liabilities to the banks — \$25.7 billion at the end of 1977 and \$27 billion at the end of March, 1978.

On the asset side, Comecon countries' deposits on the Eurocurrency markets accounted for a little more than 80 percent of their total deposits with the banks — \$7 billion at the end of 1977 and \$6.6 billion at the end of the first quarter of this year. These are the latest basic figures on Comecon's financial posture towards the Western banks — to which must be added the government-guaranteed export credits.

The largest share of the debt, about 47 percent, is owed to Western banks. Drawings on officially supported Western export credits account for about 43 percent and supplier credits around 8 percent. (Soviet proportions are different — 25 percent to banks, 62 percent official credits.)

The \$50 billion debt figure that results from these sums does not in itself cause Western bankers to lose much sleep. Communist borrowers are regular repayers; they have mineral resources to underpin their borrowing and, if necessary, they can employ their centralized systems to divert effort and money into repayments. Western bankers who are used to dealing with Comecon say this \$50 billion figure is similar to that of Brazil.

Borrowing

The level of Comecon borrowing will depend to a large extent upon the success or failure of Soviet harvests, improvement of Polish agriculture, how much oil the Comecon countries will receive from the Soviet Union and how much they may have to buy on dollar-based markets.

Nevertheless, the Comecon countries, led by the Soviet Union, are still trying to push spreads down to the point where forthcoming loans will be regarded as tests of the willingness on the part of the Western banks to lend large amounts. One London banker said, "The Soviets may try to obtain half percent, but will they succeed?"

Spreads are already down to nearly this. One of the two Comecon banks, the International Investment Bank (IIB) obtained its last \$500 million at a rate of 5/8-3/4 percent over Libor, whereas in the past it had always paid a little more in order to raise large sums without problems. It now considers itself on a par with the Soviet Foreign Trade Bank, which in turn has sent shock waves through the market with its repayment moves.

This fall the Soviet Foreign Trade Bank announced it was repaying some \$350 million in loans from Western creditors. The view that it would seek refinancing elsewhere at a half percent proved incorrect for the moment. One of the loans repaid was the \$250 million five-year credit at a 1.25 percent spread arranged in 1975 by a group headed by Lazard Freres et

Cie. of Paris with Banque Nationale de Paris and Morgan Guaranty as co-managers. Lazard is now rearranging a private syndication for \$250 million at 5/8 percent for a long 10-year period.

The second loan to be affected was the \$400 million five-year syndication at 1.25 percent over Libor arranged in 1976 and for which the lead managers were Citicorp International Bank, Moscow Narodny Bank and Societe Generale. The first tranche of \$100 million has been repaid. A total of \$1 billion could be up for refinancing at better spreads and longer maturities.

Prepayment also "looks good," although many Western bankers think the Soviets would be better advised to keep the money in their reserves because of the grain situation.

All other Comecon borrowers have been able to obtain better spreads this year. The astute Hungarians borrowed \$300 million at 5/8-3/4 percent from a group headed by Continental Illinois (the largest major borrowing arranged by a U.S. bank). The Romanians jumped on the bandwagon and had Barclays arrange a \$300 million loan on similar terms.

The Czechs, who were borrowing at 1.125 percent over Libor in the summer of 1977, have dropped down to the same level as the Hungarians and the Romanians. The latest East German loan — \$150 million for the Foreign Trade Bank arranged by Lloyds — is also at the same rates. U.S. banks were not even asked to take part in the management group as it is so well-known now that they will not come in under 3/4 percent (a few smaller U.S. banks could take some part in the syndication).

This East German borrowing was something of a test. The view among bankers is that the Bulgarians, too, could now obtain the same spreads.

Poland has to pay more because of a debt that falls out far short of the Soviet Union's \$17 billion, but even here terms are getting finer while new means of financing are being used to overcome the fact that many banks have reached their lending limits with the Poles. The \$250 million Eurocredit for the Polish copper industry saw the U.S. Comptroller of the Currency recognize the Lubin Copper Mining and Metallurgical Combine as a separate borrower, a kind of second Poland.

Philippines Begins to Stagger Under Foreign Debt

By Bernard Wideman

MANILA (IHT) — The Philippines is beginning to stagger slightly from its heavy foreign borrowings, but foreign bankers and finance ministers still consider the country a good risk. One foreign banker here summed it up by saying: "The economic situation doesn't look very bright, but the political situation is quite stable, so we're happy to lend money to the country. But we prefer medium-term rather than long-term loans."

The stable (some call it stagnating) political atmosphere has resulted from the one-man rule by President Ferdinand Marcos, running the country through martial law decrees for the past six years. Money lenders appreciate stability, and World Bank President Robert McNamara pointed out to Mrs. Marcos last July that the bank had increased its lending to her husband's government by twentyfold following the imposition of martial law — from an average of \$12 million yearly in the 1960s to a yearly average of \$250 million during military rule.

Total foreign debt has increased from \$2 billion in 1972 (the year when martial law was imposed) to \$7.2 billion at the end of first semester 1978. It is expected to approach \$8 billion by year-end.

Debt-service ratios — calculated by dividing the current year's debt service by the previous year's foreign exchange receipts — have remained below the 20-percent danger mark. But the ratios have had to be revised upwards by government planners because foreign exchange earnings have been very low. The debt-service ratio for this year is likely to be 18 percent — up from a planned 13 percent. Next year's estimate has been raised to 17 percent from an earlier estimate of 11 percent.

In 1977, the \$943 million debt service was divided by the \$5.3 billion in foreign exchange receipts, for a ratio of 17.8 percent. But only \$3 billion of the receipts were earnings, putting the ratio of debt service to earnings at an awkward 31.1 percent. This year's debt service amounts to \$1 billion — \$332 million in interest and \$668 million in principal.

The World Bank estimates that the country will have to have net inflows of \$1 billion yearly until 1985 in order to push the economy to take off and that these amounts will have to come mainly from medium and long-term loans. However, in order to repay these loans (and to build up the economy), the bank envisions exports increasing by 16 percent yearly, while increas-

es in imports should not exceed 14 percent.

These expectations have not been fulfilled. Although 1977 exports showed a 16-percent increase over 1976 exports, the first nine months of this year saw exports increase a meager 3.8 percent (to \$2 billion) compared to the first nine months of last year. Meanwhile, imports for the nine-month period rose 22 percent to \$2.9 billion, leaving a balance of trade deficit of \$910 million. The year's deficit is expected to top the \$1 billion mark, compared to a \$764 million deficit last year and a \$1.06 billion deficit in 1976.

This year's widened deficit has shocked government planners and forced Mr. Marcos to decree a 5-percent slash in budgetary expenditures. The deficit-spending budget is pegged at \$2.2 billion pesos (\$4.3 billion), with the lion's share of more than 17 percent going to the military.

Aside from the gloomy trade picture, there are two other constraints on foreign borrowing. One is the inability of the government to generate sufficient domestic resources to meet budgetary obligations, thus necessitating foreign borrowing for budgetary needs. The other constraint is the use of foreign borrowing for economically unfeasible projects, such as the convention

center and the glut of hotels built since 1975 at a cost of some \$600 million.

The borrowers, mostly friends and relatives of Mr. Marcos, are almost all late in their repayments to government lending institutions. The World Bank noted that principal loans of the Development Bank of the Philippines — which funded much of the hotel building — were 65 percent in arrears in 1975 and 73 percent in arrears in 1977. The bank termed this poor collection record "disturbing."

Negative Factors.

Summing up the negative factors at work in the economy, observers note that the GNP growth rate will not approach the 7.5-percent target and will likely be near last year's 6.3 percent.

On the plus side is the fact that the largest percentage of foreign borrowings has gone to infrastructure projects such as power generation and electrification (15 percent of total borrowings). But most of this money is to pay for a \$1.1 billion nuclear power plant that is already considered a white elephant by government planners.

Most of the outstanding foreign debt (28 percent) is owed to the United States, with Japanese creditors in second place (15 percent) and the International Monetary Fund in third place (8 percent).

The IMF placed a \$950 million ceiling on borrowings of 1-15 year maturities, as a result of the government's availing of the IMF's extended fund facility three years ago. Under that facility, the government drew \$260 million in special drawing rights.

But with the termination of the obligation at year-end 1978, the country is expected to increase its

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Risk Japanese Awash in Liquidity, and Bankers Are Eager to Lend

By Robert Y. Horiguchi

TOKYO (IHT) — Eastern Europe's money men are joining their capitalistic confreres to beat a path to Tokyo where funds are lush, interest is low and bankers are eager to lend.

Not only are individual Communist bloc nations tapping this favorable market but the International Investment Bank of Commerce, the Moscow-dominated economic organization, is reported to be actively shopping around for a loan on bargain-basement terms.

The Eastern bloc's purchases of goods are financed mostly by funds raised in the Eurodollar market. But many Western bankers have recently been getting nervous about the size of their cumulative debt with Communist nations and are calling for restraint.

So the East Europeans have turned to Tokyo where the Japanese see in this trend an excellent opportunity for increasing trade with the Eastern bloc through liberalized lending, both in dollars and in yen. The most recent borrowers have included Yugoslavia, Hungary and Bulgaria.

This is one of the salient developments in the rapid internationalization of the Tokyo money market, where financial institutions of all types are looking far and wide for foreign borrowers to take up the slack in domestic demand for medium and long-term financing as local investment in plant and equipment remains in the doldrums.

By the best estimates available, medium and long-term loans by Japanese banks to non-Japanese borrowers amounted to \$6.9 billion in the first six months of this year, almost a 75-percent increase over the \$4.2 billion in such loans throughout 1977.

This quickened pace in lending brought the amount outstanding in such loans from approximately \$8 billion at the end of June, 1977, to an estimated \$14 billion by Aug. 31 this year, according to one study.

The bulk of the loans, about 55 percent, was in dollars although interest on yen loans is lower than on dollar financing.

Nevertheless, foreign borrowers are inclined to shun yen loans in the belief that the year-long rise in the exchange value of the yen has not yet peaked, and they fear facing exchange losses at repayment time in spite of the fact that most loans have maturities of seven years or more, according to banking sources.

Another reason is that government authorities discourage yen loans in that these do not directly contribute to their efforts to pare down Japan's bulging foreign reserves through an outflow of dollars. These reserves, mostly in dollars, stood at a record-breaking \$29.4 billion on Oct. 31. Combined with surpluses in the trade, current, basic and overall accounts in Japan's balance of payments, these reserves play a major role in pushing the yen further upwards on the international exchange markets.

Japanese bankers say that in addition to the lack of domestic demand for term funds, they are having to lend money on increasingly competitive terms to foreign borrowers because of the pressure of liquidity in the international banking system caused by the increase in the amount of resources available to banks in the Eurocurrency market. The main factor in this liquidity is the unfavorable U.S. balance of payments.

They point out that interest margins, maturities and credit terms

have all moved steadily against the lending banks and in favor of the borrowers.

"We are today in a borrower's market," says Toshio Joki, director for international operations of the Mitsui Bank.

Trimming Spreads

To meet this situation, Japanese banks are squeezing their interest rate margins — as spreads — as they seek harder and further afield for profitable lending opportunities.

This competition in trimming spreads touched off some time ago a "mini-war" of words between Japanese and Western banks that has caused consternation in Tokyo's paternalistic Ministry of Finance where it was seen as a threat to the reputation of Japanese banking.

The commotion was caused by a recent loan made by an all-Japanese banking syndicate to the state-run British Electricity Council. The Japanese banks, including Mitsubishi, Sumitomo, Fuji and the Long-Term Credit Bank of Japan, lent \$500 million for 10 years at the low rate of 0.5 percent above the London interbank offered rate (Libor) for the first six years, and 0.625 percent thereafter.

U.S. and European bankers charged that the low interest level was unjustified by market conditions and accused the Japanese of deliberate rate-cutting to steal markets.

Suspensions were voiced openly by U.S. bankers that Japanese banks were secretly getting dollars from the Bank of Japan instead of the regular interbank market in London or New York.

Japanese bankers vehemently deny this although admitting that

the government is making dollars available to them to be lent out at reduced interest rates to importers to help them buy more abroad so as to trim Japan's bulging trade surplus.

They assert that the use of such dollar funds is strictly controlled and point out in their defense that these import-promotion funds are now also being made available to foreign banks operating in Japan. The banks discount bills for domestic importers, then offer these bills as collateral for yen-denominated loans from the Bank of Japan at the low 3.5-percent bank rate and then re-lend the money at 3.75 percent. Interest rates are now approaching 9 percent for dollar settlements.

As the controversy heated up, a U.S. banker coined the term "Banzai loan" to describe the deal, comparing it to the suicide charges made by the Japanese infantry in World War II. He paired it with Samurai bonds, the popular expression for yen-denominated foreign bonds floated in Tokyo.

The furor was aggravated by the fact that, according to non-Japanese bankers, this cheap loan came at a time when U.S. banks were beginning to take a harder line on interest rate spreads and the syndicated loan market in Europe was beginning to stabilize.

The Japanese retorted that the City of Paris had obtained a loan of 0.5 percent over Libor from a syn-

dicate of French banks some months earlier.

They further pointed out that the decline in spreads has been a consistent trend during the past three years. During 1976, the lowest spreads for prime borrowers declined from 1.25 percent to one percent, during 1977 to 0.875 percent and this year to 0.5 percent for loans maturing in five years. In the very competitive conditions that prevailed in 1974, the finest rates were 0.375 percent.

Nevertheless, the imbrolio was sufficient for the Tokyo monetary authorities to call on the bankers for restraint. Toshimatsu Ohba, counselor for international finance in the Finance Ministry, says he wants the banks to maintain conventional standards for maturity-matching by observing the principle of financing medium and long-term foreign credits with term obligations (deposits). In Japanese banking parlance, this means deposits of more than one year and a day.

The cost of money for Japanese commercial banks has dropped sharply following the successive lowering of the Bank of Japan's discount rate to a record-setting 3.5 percent on March 16, a reduction of 5.5 percent from its peak in 1974. Interest rates on deposits were lowered proportionately so that ordinary savings deposits now yield a minimal one percent interest per annum.

But 60 percent of the total deposits are term deposits. Interest rates on these are 4.5 percent for one-year and 4.75 percent for two-year deposits.

Another cheap source of yen for Japanese banks is the call market, made up mostly of overnight funds. These funds are cheaper than those raised from deposits because of the low prevailing call rates. The Bank of Japan allows the banks to roll over these funds indefinitely to enable them to sustain their over-loaned positions, but it has the power to intervene in the market by setting call rates.

In addition, loan funds have recently been supplied by life insurance companies that have joined the banking syndicates. This development, which at one time attracted considerable interest, now appears to have become a common practice.

The loans being provided by Japanese banking syndicates naturally vary in terms, maturities and conditions. However, the rule of thumb is that for dollar loans, interest rates will be Libor-based with spreads ranging from 0.5 percent to 0.875 percent over Libor, while in the case of yen lendings, the Japanese long-term prime rate will prevail.

In the latter case two formulas are predominant. One, on loans with five to seven-year maturities to favored customers, calls for an interest rate of 7.1 percent per year, the same as the domestic long-term

prime rate. For financing exceeding such periods, 0.5 percentage points are added. The other formula sets a 7.6-percent interest with a proviso for a rate revision every two years.

One example of such favorable rates reportedly being offered is that of a 7.1-percent per year interest on a 40 billion yen, 10-year loan to Australia now being put together by a group of banks including the Bank of Tokyo, Fuji Bank and the Long-Term Credit Bank.

Australia will be provided another 40 billion yen over 20 years by a syndicate headed by the Mitsubishi Trust Bank and the Nippon Life Insurance Co., but this time with an interest rate of 7.6 percent.

The same rate applied to the largest single loan extended to an overseas borrower by a Japanese syndicate, a 70 billion yen 20-year credit to the World Bank. In this case, 11 life insurance firms provided 45 billion yen against 25 billion yen provided by the Bank of Tokyo, manager of the syndicate, the Industrial Bank of Japan, the Long-Term Credit Bank and the Nippon Credit Bank. The previous largest syndicated loan in yen was for 30 billion, also to the World Bank.

One diversion from this rule is a floating interest rate based on the Japanese prime long-term interest rate that has been applied to a 5 billion yen eight-year credit to the Banque Populaire d'Algerie, in which several foreign banks in To-

kyo participated for the first time in a yen-denominated loan to an overseas borrower.

The rate, floating at a margin of 0.5 percent above the long-term prime rate of 7.1 percent, will be reviewed every four months.

The Tokai Bank was the lead manager in the syndicate, which included nine foreign banks.

Previously only single foreign banks in Japan had participated in a syndicate for yen loans abroad. The first was in January of this year when Commerzbank joined a group of more than 10 Japanese banks in a loan to Sonatrach of Algeria, and in August when UBAF was part of a loan consortium to Morocco's Banque Nationale pour le Developpement Economique.

Two foreign banks joined on Nov. 17 a consortium of nine Japanese banks and ten life insurance companies to lend 17 billion yen to the Algerian Maritime Transport Corp. at a rate of 0.4 percent above the 7.1-percent domestic long-term interest rate. The banks provided 9 billion yen, the insurance companies 8 billion yen. The interest rate will be reviewed every six months.

The Finance Ministry, which approved the participation of foreign banks in the comparatively small Algerian loan, is not expected to allow a foreign bank or banks to take the lead in a syndicated yen loan for an overseas borrower.

Mexico a Major Borrower

By Pablo Madero

MEXICO CITY (IHT) — Only a year ago the Mexican government received a \$1.2 billion 7-year Eurodollar loan with a margin over interbank rates of 1 1/4 percent. Last month SOMEX, a government-owned financial institution formed recently from several banks, received a \$225 million 7-year loan at 7/8 percent. Thus in one year, Mexico has considerably increased its standing on the Euro-market.

Mexico's public foreign debt stands at \$25 billion and its private foreign debt another \$5 billion. After Brazil, it is the most indebted country in Latin America. The debt service ratio is 35 percent. Until the end of last year the standard rates of borrowing for Mexico were always on the order of 3/4 percent over Libor for six months, one percent for a year, 1 1/4 percent for two years, 1 1/2 percent for three years, 1 3/4 percent for five years and 1 1/2 percent for seven years. But now, with the nation's booming oil industry pushing general economic recovery since the 1976 devaluation of the peso, there are no fixed rates.

Some bankers would say that the Finance Ministry, whose director of debt keeps a close eye on the country's borrowing, is becoming rather bullish in its approach to getting credit. The government now feels that it can afford to push itself. It has not defaulted on payments since the 1930s and there is growing confidence under the leadership of President Jose Lopez Portillo.

In addition, there is the country's "black gold." And there is the liquidity in the world's banks with bankers falling over each other in the rush to find borrowers. All of this makes Mexico, once a headache to many bankers, quite an attractive market.

Although the government is saddled with an inordinately high debt, it gives no impression of being unduly worried about it. The International Monetary Fund, however, is concerned. During the discussions for the terms of the post-devaluation credit facilities the IMF imposed a foreign debt limit for the amount of new money for 1978 of \$3 billion. It also laid down other conditions including reducing the high public sector deficit — the public sector having been financed under the last president, Luis Echeverria, mainly from foreign borrowing.

Mexico has borrowed its limit for 1978. The main loan this year was \$1 billion for Petroleros Mexicanos (PEMEX), the state-owned oil monopoly, which obtained the money for 10 years at a margin of 1 1/4 percent over Libor plus front end commissions of 3/4 percent. Less than a year ago in a \$350 million loan PEMEX paid 1 1/2 percent over Libor and one percent in commissions for five-year money. To complete the picture, PEMEX recently obtained between \$500 million and \$700 million from at least seven international banks with a margin ranging from 3/4 to 7/8 over Libor and front-end commis-

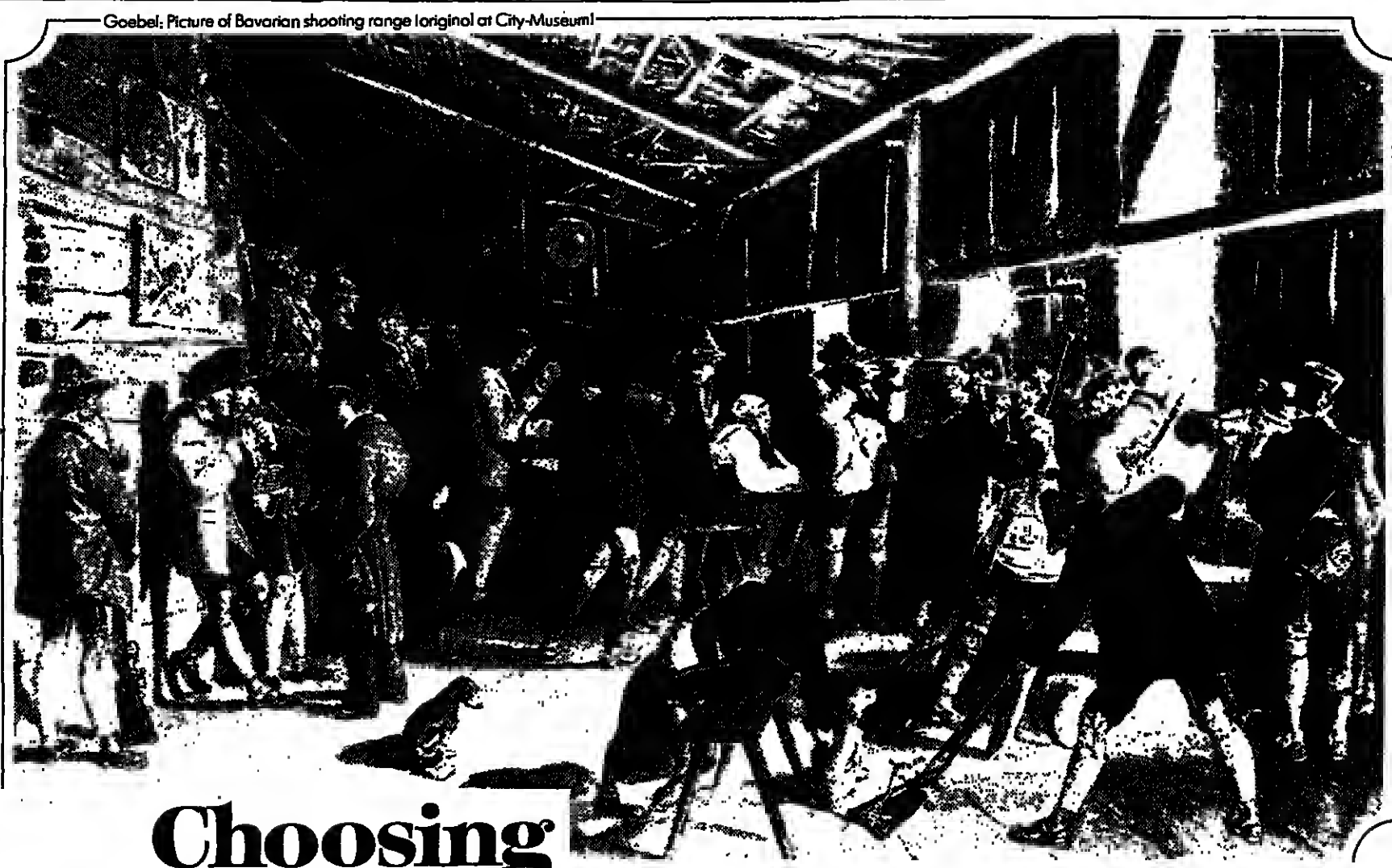
sions of only 1/4 percent. PEMEX managed it by skillfully negotiating with individual banks for small amounts instead of going for one giant credit.

The other high priority is the federal electricity commission, which is scheduled to spend \$0.3 billion pesos (\$3.9 billion) this year in order to provide the increased power base for Mexican industry.

Not Worried

This year Mexico will have borrowed about \$8 billion, of which \$5 billion is to repay debt maturing this year and the remaining \$3 billion is new money. Bankers are not worried about Mexico's ability to repay its debt, but there is concern about the maturity structure, which leaves a high proportion of the total to be repaid within a year.

This autumn the public debt office tried to restructure foreign debt and to centralize borrowing, but so far this has not materialized. Carlos Martinez Ulloa, the director of public debt, reportedly wanted to obtain a \$2 billion standby credit with the idea of replacing the lines of credit taken out by Mexican public sector agencies. The credit, which would have been managed by the Finance Ministry, would have served as a pool for the agencies. Medium-term borrowing would have been regulated with the aim of avoiding some of the disarray that occurred in the past when all agencies would go to the market on their own.



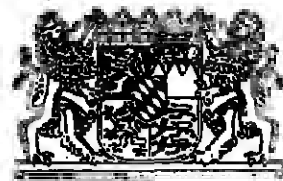
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Euromarkets

OPEC's Surplus Expected to Continue Its Decline Next Year

By John Townsend

MANAMA, Bahrain (IHT) — The current-account surplus of the nations belonging to the Organization of Petroleum Exporting Countries is estimated to amount to some \$20 billion for 1978, compared to \$33.8 billion in 1977 and \$35.8 billion in 1976. While the projections for 1979 are clouded by the prospect of a significant rise in the oil price at current prices, the best estimates suggest that the 1979 OPEC current-account surplus would probably be of the order of \$7 billion.

Part of the explanation of a falling surplus is, of course, falling oil exports from the OPEC states, reflecting the continued economic malaise of the industrialized West and the increasing availability of alternative energy sources. A far more significant reason is that the domestic expenditure of the OPEC nations in their own societies has generated an appetite for imports that is growing at such a rate that at present oil prices only Saudi Arabia and Kuwait would be likely to continue to generate significant future balance of payments surpluses.

Even Saudi Arabia, as a result of a decline in its crude oil exports and a growing demand for expensive industrial capital equipment and technology, had to transfer SR 3.2 billion (\$961 million) at the end of September, 1978, from its own reserves to help finance industrial development projects.

Naturally enough, the falling surplus of the oil producing states has had an effect on their foreign investments. The Bank of England

estimated that OPEC foreign investments fell from \$12.6 billion in the last six months of 1977 to \$6.4 billion in the first half of 1978. At the same time, Middle East oil exporting countries' deposits with U.S. banks fell from \$9.2 billion to \$7.7 billion from January to June, 1978. The International Monetary Fund, in its 1978 Annual Report, commented that "the expected decline in new external investments of the oil exporters from 1977 to 1978 is likely to be smaller than the projected drop in their current-account surplus because of an increase in new borrowings by oil exporting countries with high absorptive capacity."

Massive borrowing by OPEC countries, especially by countries such as Venezuela, Algeria and Iran — all countries with ambitious development and industrialization plans and high capacity to absorb the rapid growth — has become a feature of the international capital market. OPEC borrowers accounted for credits totaling \$7.48 billion in Eurocurrencies in 1977, and for a further \$4.93 billion in the first six months of 1978. In general, OPEC borrowers were offered attractive terms by the market, with a spread of under one percent over the London interbank offered rate (Libor). The exception was Algeria, historically a heavy borrower, which has had to borrow at almost 1.5 percent over Libor.

The United Arab Emirates appears also as a borrower, reflecting the loose political structure of the U.A.E., with Abu Dhabi earning substantial current-account surpluses and Dubai borrowing up to

OPEC EURO CURRENCY BANK CREDITS (in billions of dollars)			
	Year 1977	Jan.-June 1977	Jan.-June 1978
Venezuela	1.67	1.25	1.32
Algeria	.72	.24	1.07
Indonesia	.82	—	.71
Iran	1.22	.66	.72
U.A.E.	1.09	.70	.53
Qatar	.35	.35	.16
Nigeria	1.09	—	—
Other	.61	.26	.42
Total:	7.48	3.46	4.93

Source: World Financial Markets

the maximum of its very considerable credit worthiness.

Pointers for 1979, depending always on the size of the oil price increase likely at the end of 1978, will include the international capital market's reaction to any further request for borrowing from Iran. It is possible that Iraq, also a country with ambitious plans for industrial development and a fast growing domestic consumer market, may approach the market and join the ranks of significant OPEC borrowers.

It might be asked why the OPEC nations do not simply lend to each other, as the overall surplus re-

mains still far greater than the total borrowing. In a sense they do, in that much of the surplus is in the form of deposits in international banks and hence is available for lending to the OPEC debtor nations. Although the Arab members of OPEC are fast becoming what Said Nabulsi, the governor of the central bank of Jordan, calls intermediaries in the international capital market instead of only the suppliers of capital, OPEC as a whole does not have the coherence and the institutional strength to permit it to act as a bank itself. It does have its own OPEC Special Fund, to which all members contribute, and which makes loans,

generally in conjunction with multilateral agencies or with national development funds, for specific development projects. The OPEC Special Fund is intended as a development fund for deployment throughout the Third World; it was never intended as a buffer fund for the OPEC nations themselves.

Insofar as it is the Arab members of OPEC who are the surplus earners, it is reasonable to look at the development of Arab financial institutions, as distinct from OPEC financial institutions. Arab contributions to international lending have so far tended to be on an ad hoc basis, with little or no cooperation among the various Arab financial institutions themselves in the provision of loans or even in the membership of international syndicates providing loans to borrowing nations.

This tendency is beginning to change, as Arab money managers develop in professional expertise and self-confidence. The dream of a unified Arab currency is a long way off, but increasing collaboration among the Arab lender nations in OPEC is regarded by many as the first step towards the creation of a genuine Arab capital market.

Two developments underline this thesis. First, the creation of the Arab Monetary Fund (AMF) has provided a central institution for general lending as well as for balance of payments support. The first operation of the AMF was the fund's participation in a \$120 million Eurocurrency loan to Algeria. Subsequently, the AMF has provided balance of payments support credits for Egypt and Sudan.

Although the Arab surplus states, especially Saudi Arabia and Kuwait, do not have a dominating role in the AMF at the present time, many observers believe that in the future the fund will become more and more the logical vehicle for deploying OPEC Arab surplus funds to meet the needs of the borrowing nations of the Arab world. The logic behind this concept is that the AMF would provide a reasonably apolitical set of rules for the management of loan capital. The Saudis, for example, now worry about making unified loans to other Arab states, for they have little control over the use of the money provided and no certain way of ensuring that loan capital is used for the purposes for which it was originally provided.

Investment Banks

The second development leading towards the creation of an Arab capital market based on oil revenue surpluses is the development of genuine Arab investment banks. For the best part of a quarter of a century, the Arab world has talked of setting up Arab investment institutions. Many intergovernmental bodies with impressive sounding names were spawned, but few became genuine investment and lending institutions. An exception to be noted is the Riyadh-based Arab Investment Co., which has had a certain amount of success in investing Arab surplus funds in developing countries, for example, the Sudan. Part of the problem was that the government-sponsored investment institutions tended to be managed by civil servants or dignitaries, rather than by bankers.

The OPEC surplus, almost all of it Arab, has encouraged bankers to set up consortium banks aimed at the commercial lending of the surplus. Banks such as the Banque Arabe et Internationale d'Investissement (BAII) and the Union de Banques Arabes et Francaises (UBAF) were intended to combine Arab money with Arab and international management expertise to ensure the profitable lending of surplus funds. Now Arab bankers are going it alone, with organizations such as the Bahrain-based Gulf International Bank and the Kuwait International Investment Co. being seen as lead managers for OPEC and non-OPEC international borrowers. This trend may be expected to continue, as the Arab merchants of the Gulf and the peninsula deploy their considerable entrepreneurial and mercantile skills to maximize the return on the oil surpluses earned by their governments' exports of crude oil. Already, these banks are attracting a share of oil surplus deposits, a share that is likely to grow in the future.

Contradictions

What of the future of the OPEC surplus, and hence that of the OPEC borrowers and lenders? There are two distinct trends, which could become contradictory. First, the OPEC borrowers, and especially those with the determination to create modern industrial societies — Venezuela, Algeria, Iran (in spite of recent troubles, the country has really no other option), Iraq, Indonesia, Nigeria — will tend to become more international, and to borrow on international markets at the best rates and with the best available conditions. No oil price increase can provide the

development capital that they need to deploy over the space of two or three decades if their plans and aspirations are to be satisfied.

Already some of these countries, Algeria being a prime example, have tended to mortgage their future by adding themselves with high levels of loan servicing charges over the ensuing decade. Of course, loans can always be extended and rescheduled, but the ultimate liability for future generations remains.

The calculation of policy makers is that the increased earning capacity of the society that they are trying to create will make loan service charges that seem high today a much more easily digested item in the national budgets of the future. The OPEC borrowers, certainly the larger of them, are thus firmly linked to the international monetary system.

The OPEC lenders, in essence

only Saudi Arabia and Kuwait, with the U.A.E. having a small share of the surplus, are to a certain extent bound by geography and by tradition to look to a regional, pan-Arab world, rather than to the international community. This is not to say that they are parochial. On the contrary, their aid record to the Third World is both generous and effective, and their role in the international financial community is both responsible and professional.

The point is that, whereas the OPEC borrowers have little in common save their need for international bank credit, and hence have to have an international approach, the OPEC lenders, being small countries with a common heritage, are tending to form a regional capital market and a set of institutions aimed at giving them added strength in the international capital markets of the future.

Swiss Seeking New Roles But Terms Unappealing

By Bhushan Bahre

ZURICH (IHT) — The big Swiss bankers are seeking to expand their role in the syndicated loan market and at the same time reduce their interbank lending business. Given the current state of the market, however, where the borrowers have the upper hand, the Swiss have found the terms unappealing. Consequently, they have had to be content with being able only to maintain their share, estimated at somewhat less than 10 percent of new business in syndicated loans.

At Credit Suisse, the third largest Swiss bank, Senior Vice President Hans-Ulrich Doering says that Swiss participation in syndicated lending may be down slightly from last year, but this difference is probably accounted for by currency changes, with the rising Swiss franc resulting in lower entries on Swiss banks' balance sheets.

Although Swiss bankers in private express interest in diversifying their activities by participation in more syndicated loans, in public they are more cautious, citing the borrowing-short and lending-long aspect of this market.

The disengagement of the Swiss with the current market is partly due to factors that also affect other banks in the Eurocredit business, and partly due to special circumstances of their own. Thus, Swiss bankers cite the narrow spreads, the long maturities and contractual terms that increasingly favor the borrower, developments that affect all in the Eurocredit business. The factors that apply particularly to the Swiss are the high liquidity and capital requirements, and the fact that the rise of the Swiss franc and the consequent outflow by the Swiss export industry has meant that the banks have had to take into account the political and social climate in Switzerland and be ready to give preference to export loans.

At Basel-based Swiss Bank Corp., Guido Condrau, vice-president in charge of syndicated loans, says that because banks are refinancing themselves in the short-term, and because the Swiss banks are not dollar based and as such have no lender of last resort, "it makes us very reluctant to long maturities — 10 years or more."

On the ever-narrowing spreads, the Swiss view is that a cyclical upturn is inevitable, although one cannot be exact about the timing.

This does not mean that the Swiss banks are declining to participate in syndication but that they are disinclined to do so simply to show more business and swell their balance sheet totals. Given this factor and low yields, the Swiss banks are attaching more importance to such things as the quality of the loan and are, of course, keen to preserve relationships with prime clients. Moreover, the strategy is to seek participation in a large number of loans, earmarking smaller amounts.

Regarding their special situation, Swiss bankers say that their costs are higher, although they decline to be specific about their break-even level, citing the many variables that make this a moving target. The higher costs, they say, result from liquidity and capital requirements (under Swiss law) that are the highest among countries whose banks are active in Eurocredits.

Moreover, the Swiss banks will for the first time have to file a consolidated balance sheet, that includes their foreign operations with the Swiss banking commission this year. They will not be required to publish it, but bankers are worried about the possibility that this may be a prelude to yet greater capital and liquidity requirements that would raise their costs further.

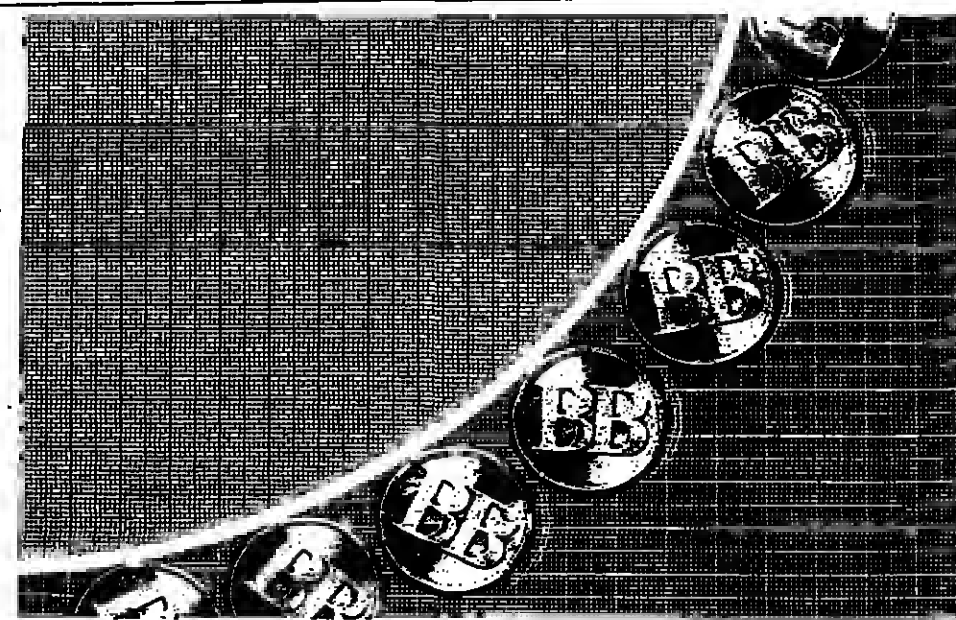
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A high-contrast, black and white photograph of a person's hands holding a dark, rectangular object, possibly a book or a folder. The left hand is on the left side, and the right hand is on the right side, with fingers visible. The object has a metallic clasp on the left and a small, light-colored rectangular label on the right. The background is dark and textured.

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Chicago Options Table

Option	price	Vol.	Last	Vol.	Last	Vol.	Last	Vol.	Last	Vol.	Last	Vol.	Option	price	Vol.	Last	Vol.	Last	Vol.	Last	Vol.	Last	Vol.	Last	Vol.
Dec - Mar - Jun - N.Y.													Option & price Vol. Last Vol. Last Vol. Last												
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Call	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
Put	100	b	b	b	b	b	b	b	b	b	b	b	Am Hos	25	0	d	1	3	1	1	1	1	1	1	1
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This offer valid through December 31, 1978

Party to Get Finder's Fee

Republicans, N.Y. Bank
to Promote Credit Cards

By Adam Clymer

WASHINGTON, Nov. 26 (NYT) — Manufacturers Hanover Trust Co. of New York and the Republican National Committee will begin promoting credit cards next week, with the Republicans getting today's fee of \$2.50 for every new card issued.

A spokesman for the bank said the mailing, probably to about 10,000 credit-worthy registered Republicans in New York state, is a "very standard arrangement."

He said the party would be getting the standard fee that other promoters, such as department stores, receive. Robert Perkins, the outgoing director of the Republican National Committee, said the party considers the New York mailing phase one and hopes to extend it to other states.

He said the cards would be used to offset the cost of the party's office contributions by credit cards, method already in use.

The card will say, "This card is endorsed exclusively by the Republican Party." It will have the party and bank labels on the back.

The party will mail lists of New York state's 2,694,656 registered Republicans against credit lists. Mr. Perkins said he estimated that 10,000 credit-worthy Republicans could be selected.

Letter From Brock
They will receive a letter signed by Bill Brock, the Republican national chairman, saying that the party is making a special arrangement with Manufacturers Hanover to give them a card with a \$1,000 limit of credit.

The card can be used in 20,000 or more locations, the letter will say, and by getting one on its offer, they can also help the party.

The bank spokesman noted that their counterpart firms, such as the American Automobile Association, are looking into promoting bank credit cards with their members.

Some large commercial firms like retail agencies are also considering similar arrangements.

The Democratic National Committee had no comment on the plan, but Mark Shields, a Democratic political consultant, said, "We're finally seeing conclusive proof of the plastic nature of the

Republican Party. They've come up with more and more plastic candidates, so it's logical they would take the next step and go into credit cards."

A spokesman for the Federal Election Commission said there had been no request for an advisory opinion on the legality of the procedure. But, if the Republicans were providing a service to the bank, she said, the finder's fee would not be an improper contribution by the bank.

Mr. Perkins said the plan had advantages for both sides. The party would get finder's fees, and perhaps it would be easier to get contributions from holders of the new Republican Visa card. And the bank, he said, would be getting "a whole new way to market their cards."

Euromarket

(Continued from Page 17)
rents for a resumption of new issue activity.

On Friday, Citibank, Morgan Guaranty Trust Co. and several other major U.S. banks raised their prime lending rates by a half point to 11.5 percent, instead of the usual quarter-point step.

While this development should put further pressure to lower bond prices, it could also give further upward impetus to the dollar. Hence, the increase in interest rates may encourage non-dollar-based investors to buy dollar bonds because currency appreciation could more than offset any losses on the price.

Although the special drawing right has been dropping almost steadily against the dollar for several weeks, the first Eurobond issue to be denominated in SDRs in three years received a surprisingly good reception this week. The 25 million SDR, seven-year note issue of the Swedish Investment Bank was priced at par bearing 9 percent.

Total subscription demand was put at 43 million SDRs. In after-market trading Friday, the issue was quoted at 99.95.

Syndicate sources said that there was considerable demand for the issue by central banks, which, as a



BELGIAN PICTURE WINDOW — To celebrate its 50th anniversary, the Royal Association of Dutch-speaking Engineers built a frame through which to view the center of Brussels.

matter of policy, are continuing to diversify their reserves out of the dollar.

While subscription, interest and principal payments for the Swedish Investment Bank's issue are in dollars at the prevailing rate for the SDR, quotations for the issue are in SDRs. Recently, the exchange rate for the SDR, as published by the International Monetary Fund, was \$1.27376, making the issue equivalent to about \$31.5 million.

The Deutsche mark sector, a 400 million mark, 10-year issue of the World Bank received a lackluster reception last week. Priced at 99.5 bearing 6.25 percent to yield 6.32 percent at maturity, the issue was trading in the after-market at around 98.

Meanwhile, a syndicate led by Westdeutsche Landesbank scheduled a 150 million mark, 12-year issue of Occidental International Finance N.V. for an offering with an indicated 6.5 percent coupon.

Guaranteed by Occidental Petroleum Corp., the issue provides a sinking fund starting in 1985 that will reduce the average life of the amount outstanding to 9.5 years. The issue was said to be selling slowly.

Also in the market is a 150 million mark, 10-year convertible issue for Sharp Corp. Although Sharp is a household name, the offering was said to have received a somewhat cool reception because its size is much larger than normal.

The Japanese consumer electronics company is paying 3.5 percent semiannually. Noteholders will have the right to convert their notes into the Tokyo-listed shares starting Feb. 15 at what is expected to be about a 7 percent to 8 percent premium above the price of the stock at the time of the offering.

Commerzbank, meanwhile, is arranging a private placement of convertible notes of Tokyo Electric Co. The utility is expected to pay 3.5 percent semiannually on its 40 million mark, six-year notes.

In Tokyo, the Ministry of Finance approved floating 38 international issues by Japanese companies during the first quarter of next year for a total of about \$11.6 billion. This is up sharply from 27 issues totaling \$789 million in this quarter.

Included in authorizations for first quarter are 22 convertible issues denominated in Swiss francs and 13 convertible issues denominated in Deutsche marks.

Japanese bankers said that the

main reason for the continuing deluge of Japanese convertible issues is that the interest costs are low.

The coupon rate for such issues in Swiss francs is 2.875 percent; for Deutsche marks, 3.5 percent.

In the burgeoning French franc Eurobond market, a 150 million franc, 10-year issue of Societe Nationale Elf-Aquitaine bearing 9.75 percent was said to be selling well. The French state oil company's offering is managed by Banque Nationale de Paris.

Ultimately, the Times wants to reduce its 4,300 employees by about 1,000. It is generally considered that the newspaper industry on Fleet Street is overmanned by about 35 percent.

In turn, the management said that it was prepared to provide

over, and was less indulgent toward the daily paper's losses. He and the management were determined to bring more coherent labor methods to their papers.

Mr. Nisbet-Smith said, "About 90 percent of management time is spent dealing with disputes. As a result, we have almost no time left for managing the business and laying plans for future expansion."

Management did not quickly follow up its initial statement with detailed proposals. Most of the summer was wasted, from the union's point of view. Only in the last few months has management delivered its proposals, which in many cases are enormously detailed and often cut across traditional union lines.

And these proposals usually were given to the union leaders at the national level — without consulting the local units on the papers.

Times Warns Readers
LONDON, Nov. 26 (UPI) — The Sunday Times said that today's issue may be its last for a long while.

"We hope that we will be with our readers next week," the paper said in a front-page story. "But a suspension of publication may take place on Thursday."

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Field Goal Good On Final Play

An Old Quarterback Offers Some Advice

Namath's Lesson

"We are all creatures of habit," Benny said, "and we do what comes naturally. I saw Joe Namath, knocked on his tail, put a hand on his head, break his fall and he broke his wrist. Later Terry Hanratty of Pittsburgh did the same thing and wound up five weeks with a sprained wrist.

"It's natural to try to break a fall. We do it instinctively, but at Michi-

through when he throws, it will leave him in a half-crouch with both knees flexed. Then if he's hit, the knees will give with the shock and he won't be hurt.

The rushers are converging on the spot where he stands in the pocket. His follow-through takes him a yard ahead of that spot, and in the crouch he's six inches shorter than he was. The target has moved and got smaller.

"How often do you see a passer fake with his head? Only on screen passes, I think. When he has the screen set up he may look in one direction and then throw in the

NHL Standings

CAMPBELL CONFERENCE					
Patrick Division					
	W	L	T	Pts.	GF
Atlanta	15	5	2	32	99
NY Islanders	14	3	3	31	93
NY Rangers	11	4	4	26	73
Philadelphia	11	7	4	26	70
Smythe Division					
	W	L	T	Pts.	GF
Chicago	8	8	4	20	66
Vancouver	8	13	1	17	73
St. Louis	5	14	4	14	74
Colorado	4	14	4	12	64

WALES CONFERENCE

Los Angeles	16	1	21	75
Detroit	10	5	15	69
Washington	5	12	14	57
Pittsburgh	5	12	13	65
Adams Division				
Seattle	11	4	27	67
Portland	10	4	24	68
Buffalo	7	7	20	59
Minneapolis	5	12	12	53
Fraser's Ravine				
Philadelphia 4, Minnesota 3				
Atlanta 4, St. Louis 1				
Edgemoor's Ravine				
Colorado 4, Toronto 3				
Philadelphia 3, Pittsburgh 1				
Chicago 4, Montreal 3				
St. Louis 4, Washington 3, Ho				
St. Louis 4, Detroit 3				
Los Angeles 4, Minnesota 1				
N.Y. Islanders 5, Vancouver 2				

	W L T	Pts. Of C
Clackamas	12	22
New England	10	6
Clackamas	10	6
Clackamas	10	6
Winlock	9	9
Birmingham	8	9
Clackamas	8	9

Friday's Results

Clackamas & Indianopolis 8
 Clackamas & Quebec 3 (tie)
Saturday's Results

Clackamas & Clackamas 3
 New England & Birmingham 2

Sooner Guard Honored

OKLAHOMA CITY, Nov. 22 (UPI)—Oklahoma offensive guard Greg Roberts, a 6-foot-3-inch, 240-pound senior, was named today as the winner of the Outland Award as the outstanding interior lineman in college football.

Figure 1

Fleming Do

BOLOGNA, Nov. 26 (UPI) — Peter Fleming downed Adriano Panatta, 6-2, 7-6, here yesterday to win the singles title in an Italian in-

Enroe in Friday's semifinals is the biggest surprise of the tournament, later teamed with McEnroe in the doubles to defeat Tonino



New Zealand made mistakes, too — as when center Bill Osborne threw a monumental overlap early in the first, or when fullback Brian Kavanagh missed two tries for the visitors in the first 23 minutes. But no matter. Twickers was a jumbo and packed with art lovers — and the dogfight on show was Black Chopper vs. The Montemonte-Kitchener-Market-Weave-Mark-Too-Gentleman's Flying Machine.

1976, Northeastern 17
 Virginia Tech 40, Tulane 20
 Kansas Madison 32, G. Westphalen 62
 Virginia B. Va.-Commonwealth 11
 1977, Maryland 10, Missouri 10
 Johns Holk, Wooster 91
 1978, Iowa 110, Amer-Leon 87
 1979, Nebraska 17, Solidor Clinic 1
 1980, Iowa 170, Richmond 29
 1981, New Orleans Classic
 1982, Texas 55, Texas Tech 40
 1983, New Orleans 57, New Orleans 51
 Charlotte Jayville 100
 1984, Maryland 81, Centelius 57
 1985, Maryland 57, Centelius 57

In Milan, officials of the club announced that they will discontinue the practice of giving "courtesy gifts" to referees and officials of opposing teams.

"It was a common policy of Milan and other European clubs to give courtesies to referees and club officials before cup matches," Fel-

"We presented a silver plate to the president of Levski and never thought this would have induced the opponent team into playing less hard to beat us," Colombo said.

EASTERN CONFERENCE			
African Division			
	W	L	Pct.
Philadelphia	12	5	.706
Washington	13	7	.458
New Jersey	13	9	.591
New York	12	9	.571
Boston	5	13	.278
Central Division			
	W	L	Pct.
Atlanta	11	8	.579
San Antonio	10	10	.500
Houston	6	9	.471
New Orleans	8	14	.364
Detroit	7	13	.349
Cleveland	4	14	.300
WESTERN CONFERENCE			
Midwest Division			
	W	L	Pct.
Kansas City	11	8	.579
Denver	10	11	.476
Minneapolis	6	15	.248
Indiana	6	13	.314

panese tournament.

Tennis Title

where today after the Austrian
yover sprained his right ankle dur-
the first-set tie-breaker in the
inals of the Philippine International
tennis tournament.

The victory was Noah's first ma-
one as a pro. "I feel happy for
victory but it is very unfortu-
for the crowd," said the 18-
-old Noah, who turned profes-
20 months ago.

Seattle	18	4	.789	1
Los Angeles	18	4	.714	1
Phoenix	15	4	.714	1
Golden State	11	9	.556	4 1/2
Portland 10	10	10	.500	8
San Diego	10	14	.417	7 1/2

Friday's Results

Boston 100, New York 98
New Jersey 103, New Orleans 100
Philadelphia 104, San Diego 100
Washington 113, Los Angeles 102
Detroit 119, Atlanta 117 1/2
Cleveland 104, Indiana 98
Memphis 120, Houston 111
Chicago 100, Portland 99
Denver 103, Seattle 105

Saturday's Results

New York 103, New Orleans 94
Atlanta 109, Los Angeles 103
Milwaukee 122, Philadelphia 126
San Antonio 151, New Jersey 110
San Diego 85, Kansas City 84
Seattle 116, Denver 104
Portland 122, Houston 105

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Patta, 6-2, 7-6, here yesterday to
win the singles title in an Italian in-
ter-city tournament.

Zugarelli and Roger Maillet, 6-1, 6-
4.

Using strong serves, frequent
smashes and consistent volleying,
Fleming quickly established his
lead.

men's singles title in a tennis tour-
nament.

Pat DuPre and Victor Amaya
won the men's doubles title by
beating Nastase and John Austin,
6-3, 6-4.

0, here today after the Aus-
trian player sprained his right ankle
during the first-set tie-breaker in
the finals of the Philippine Interna-
tional tennis tournament.

Connors Wins
TOKYO, Nov. 26 (AP) — Jimmy Connors beat Ilie Nastase, 6-2, 6-4, today in Kobe to capture the